

# FROM THE DESK OF THE LEV ROURK GROUP

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## Finding a Balance between Risk and Return

One of the most basic investment principles is that returns reward you for the risks you take. While investors are often uncomfortable with the concept of risk, it is this uncertainty that makes higher rates of return possible. Some basic investment principles related to risk and return include:

✓ Returns on specific investments are not known in advance. Investors can review historical rates of return, but there is no guarantee that past returns will be indicative of future returns.

✓ With most investments, there is the possibility that the investment will not meet your return expectations.

✓ The uncertainty regarding your actual return creates risk. Greater uncertainties typically lead to greater risk.

✓ Investments are subject to many different types of risk. Cash is primarily subject to purchasing power risk, or the risk its purchasing power will decrease due to inflation. In addition to purchasing power risk, bonds are subject to interest rate risk, or the risk interest rates will increase and cause the bond's value to decrease, and default risk, or the risk the issuer will not

repay the principal or interest on the bonds. 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 that a particular stock will be affected by overall stock

market movements.

✓ There is generally a tradeoff between risk and return. Low levels of risk are the most desirable and typically have lower return potential, while higher levels of risk are typically undesirable so must

Continued on page 2

## Get Your Share of Merit Aid

The basic premise of financial aid is that it is need based. However, the same student can obtain very different financial aid packages from colleges with similar costs. Part of this results from how individual colleges define your assets for financial aid purposes. Another part of this difference results from colleges competing to attract top students. To encourage these students to attend their college, they may give merit scholarships or alter the mix of traditional need-based financial aid. Consider these tips:

✓ Encourage your child to do well on college entrance exams. Not only will this make him/her eligible for acceptance at a broader range of colleges, it may increase your financial aid package.

✓ Don't enter the process determined to attend one particular college. Start with a few colleges that would be acceptable alternatives and apply for financial aid at all of them.

✓ What should you do if your child has his/her heart set on going to one college, but you received a better financial aid package from another college? Talk to the financial aid officer. While some colleges are receptive to matching other colleges' offers, others are not. In those cases, your best strategy is to review the financial aid calculations with the officer, looking for ways to increase the award. Many subjective factors go into calculating financial aid and you may be able to convince the officer to change some. Perhaps just changing the composition of the award so more is given in grants will help. ✓✓✓

## Finding a Balance

continued from page 1

offer higher return potential to encourage investors to invest. Be cautious of claims of high returns with low risk.

There are strategies that can be used to reduce the total risk in your investment portfolio:

✓ **Diversify your portfolio.** You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks. A properly diversified portfolio should contain a mix of asset types whose values have historically moved in different directions or in the same direction with different magnitudes. By owning several investments rather than just one, a downturn in any one should not have a significant impact on your total return. Of course, the opposite is also true — if you have one investment with exceptional returns, your total return will be lower than if that were your only investment.

✓ **Stay in the market through different market cycles.** Remaining in the market over the long term helps reduce the risk of receiving a lower return than expected, especially for more volatile investments, such as stocks.

✓ **Use dollar cost averaging to invest.** Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging involves investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, preventing you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares

when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price

levels. This strategy requires the discipline to invest consistently, regardless of market prices, and can help develop a habit of regular investing.

If you'd like to discuss how to balance risk and return in your portfolio, please call. ✓✓✓

## Why Teach Your Child about Investing?

It's never too early to begin teaching your children about money. Many parents neglect to educate their children about how money works, which does them a serious disservice. When you teach lessons about money, you give your children a valuable gift that will serve them well throughout their lives. Here are four good reasons to teach your children about investing.

**Because Someday They'll Need to Do It on Their Own** — Once your children are on their own and have jobs, they'll have to make decisions about investing for retirement and other goals. If they come armed with good lessons from childhood, they're more likely to make smart decisions.

**Because Good Money Habits Start Early** — While it may not be reasonable to expect a second grader to understand the intricacies of derivatives and hedge funds, you can start to teach children about concepts related to investing, like the idea that wealth builds over time. One way to do this is by having children open a savings account that earns interest, or you could reward their saving on your own, perhaps by matching a certain percent of their savings.

**So They Can Make Mistakes** — Making mistakes is a part of the learning process. Most people have

to make their investing mistakes as adults, when losing money often hurts a bit more. But by exposing your children to investing at a young age — and by letting them make their own decisions when it's appropriate — they'll learn valuable lessons now, when losing money hurts less. So let your child invest a small amount in that questionable stock. When it tanks as you expect it will, he/she will have learned a valuable investing truth.

**So They Can Start Building Wealth Early** — Consistent, focused investing is one of the best ways for most people to build wealth. If your children start young, you'll be giving them an important leg up for their financial future. Even if you aren't prepared to give children the reins yet when it comes to managing their money, you can show them how you're giving them a solid foundation by putting their birthday cash and other gifts in an investment account like a Roth IRA. As long as a child has earned income from a job, he/she can put money in a traditional or Roth IRA. Even if it's just a few hundred dollars, by starting early, their money will have decades to grow. If they continue those good habits as adults, by the time they reach retirement, your child could accumulate a significant sum. ✓✓✓

## Reassess Your Retirement Plans

Approximately five years before you plan to retire, thoroughly reassess your retirement plans and ensure all significant financial pieces are in place. Once you retire, you probably won't have the option of going back to your former job, so first consider these points:

✓ **Take a serious look at your retirement plans.** You're close enough to retirement that you should have a good feel for your retirement expenses and expected income. While you may be anxious to retire, remain flexible about your retirement date. Working an additional year or two can add substantially to your savings and may boost your retirement benefits.

✓ **Get a fix on your Social Security and pension benefits.** Make sure you know exactly how much you can expect from Social Security and defined-benefit plans. How much will your benefits increase if you delay retirement by one year, five years, etc.? If you retire before full retirement age for Social Security purposes, do you plan on working? Be aware that for those under full retirement age for Social Security purposes, earnings over \$23,400 in 2025 will cause you to lose \$1 of benefits for every \$2 of earnings over this threshold. Make sure you understand your distribution options for any defined-benefit plans. In most cases, those decisions are irrevocable, so you'll want to take some time to assess those options.

✓ **Determine how much income your retirement investments will generate.** As a general rule of thumb, you can multiply your retirement investments by 4% to get an idea of how much you can withdraw annually. You can go through a more

detailed analysis, reviewing a wide range of variables, for a more precise answer. However, the younger you retire, the more conservative your withdrawals should be, since your funds will have to last for a longer time period.

✓ **Investigate work options.** If you plan to work at least part-time during retirement, have you decided what you'll do and how much it'll pay? Make sure you investigate your options, including asking your current employer about part-time opportunities after retirement.

✓ **Finalize living arrangements.** Determine whether you want to stay in your current home or move to another one, either in the same city or a different location. At this point, you should be able to determine whether you'll have a mortgage and how much equity you'll have in your home. While most retirees continue to live in their current home, explore whether it makes sense to downsize, freeing up home equity for investments or retirement income.

✓ **Deal with health insurance and long-term-care costs.**

Two of the most significant costs in retirement are medical care and long-term care. Make sure you have plans to deal with both. If you are retiring at age 65 or later, you'll be eligible for Medicare, although a spouse under age 65 will not be eligible. You will probably need supplemental coverage with Medicare. If you are retiring before age 65, make sure you know exactly how much coverage will cost you, especially if it is not provided by your employer. Now is also a good time to take a look at long-term-care insurance, since premiums get significantly more expensive as you age.

✓ **Live with your retirement budget for a couple of years.**

Want to really make sure your retirement budget is reasonable? Try living with your retirement budget for a couple of years before retirement. If you can do so without increasing your debt, you can be reasonably confident your budget will work during retirement.

Please call if you'd like help assessing your retirement plans before you retire. ✓✓✓



# Shopping for College Education Value

If you're shopping for college, don't get scared by all the discussions about how expensive it is. While a college education remains one of the biggest investments you and your children will make, there are still bar-

gains out there. Here are some tips:

**Take aim at elite, private schools with generous financial aid programs.** Some of the priciest elite schools are considered the top bargains in all of U.S. higher education, because they have generous financial aid policies that can deeply discount their sticker prices.

**Consider top-rated state universities.** For state residents, state colleges and universities remain the best bargains among four-year schools. For out-of-state residents, however, costs rival the full price at private colleges and university.

**Reach for rock-bottom state school bargains.** Do an internet search for cheapest colleges and you can find lists of the least-expensive public colleges and universities in the country.

**Take the community college route.** Since the 1990s, enrollments at two-year community colleges have soared. In the last decade, community colleges have not just been for low-income families, students who can't get accepted to a four-year college, or those who just want an associate's degree. Instead, they are being used by affluent families as a deliberate way of holding down the cost of getting a bachelor's degree. ✓✓✓

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## Market Data



|                     | MONTH END |          |          | % CHANGE |         |
|---------------------|-----------|----------|----------|----------|---------|
|                     | AUG 25    | JUL 25   | JUN 25   | YTD      | 12-MON. |
| STOCKS:             |           |          |          |          |         |
| Dow Jones Ind.      | 45544.88  | 44130.98 | 44094.77 | 7.1%     | 9.6%    |
| S&P 500             | 6460.26   | 6339.39  | 6204.95  | 9.8      | 14.4    |
| Nasdaq Comp.        | 21455.55  | 21122.45 | 20369.73 | 11.1     | 21.1    |
| Total Stock Market  | 64011.54  | 62663.41 | 61309.50 | 9.6      | 14.4    |
| PRECIOUS METALS:    |           |          |          |          |         |
| Gold                | 3409.00   | 3310.00  | 3281.00  | 30.3     | 35.6    |
| Silver              | 39.20     | 36.75    | 35.98    | 33.2     | 35.3    |
| INTEREST RATES:     |           |          |          |          |         |
|                     | AUG 25    | JUL 25   | JUN 25   | DEC 24   | AUG 24  |
| Prime rate          | 7.50      | 7.50     | 7.50     | 7.50     | 8.50    |
| Money market rate   | 0.44      | 0.44     | 0.44     | 0.42     | 0.47    |
| 3-month T-bill rate | 4.10      | 4.24     | 4.20     | 4.23     | 4.98    |
| 20-year T-bond rate | 4.86      | 4.89     | 4.79     | 4.86     | 4.28    |
| Dow Jones Corp.     | 5.07      | 5.26     | 5.18     | 5.45     | 5.06    |
| Bond Buyer Muni     | 5.06      | 5.15     | 4.96     | 4.46     | 4.32    |

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

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