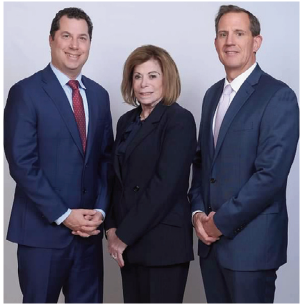
FEBRUARY 2025

From the Desk of the Lev Rourk Group

U P D A T E



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How Do You Know You're Saving Enough?

Most people think when they start earning more money, they'll start saving more money. But what often happens is the more you make, the more you spend. If you want financial independence, it is important to establish a savings routine. The more money you make, the more your savings rate needs to increase.

While it may seem like a daunting task, it can be accomplished. The only way to reach financial independence is if you save and live within your means. Your savings should include retirement account contributions, matching funds from your company if available, cash savings, and any other investments.

Your 20s: You are just starting out and, hopefully, you've found a good job that pays a reasonable salary. This is the beginning of the accumulation stage, so you need to start by paying off debt if you have student loans and work to save at least 10%–25% of your income. If your employer offers a 401(k) plan, start investing right away. Try to contribute as much as possible or at least contribute as much as your employer will match.

Your 30s: Hopefully, you have now decided what you want to do for a living and have had a jump in income. You are still in the accumulation stage, so you should be increasing contributions to your retirement account and trying to contribute the maximum per year. By the end of your 30s, you'll want at least twice your annual salary saved. A simple example: If you're making $50,000 annually, you'll want to have $100,000 accumulated in savings by age 39. But remember this includes retirement accounts.

Your 40s: This is the decade of major responsibilities, as you probably have dependents. Your income

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Overdiversification

Diversify. Diversify. Diversify. While this investment advice seems to be continually discussed, it is possible to overdiversify, which can lead to lackluster returns. Thus, it is important to know the difference between healthy diversification and excess diversification.

The primary benefit of diversification for your portfolio is to spread market risk over different stocks in a way that will decrease the impact any one stock will have on your total return. With an appropriate level of diversification, your overall return should not be significantly impacted if one or even a few investments do not perform as expected.

Thus, it is not just the number of investments you hold that impacts your return, but how they interact with one another. If you keep adding investments that react to the market in the same way, you are not really diversifying. You are just adding similar investments to your portfolio.

Adding too many investments to your portfolio also makes them more difficult to monitor. With too many investments to keep track of, it is more likely that you will miss important information.

Please call if you'd like to review the level of diversification in your portfolio. ✔✔✔

How Do You Know?

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may have increased as you climbed the ladder at your job or moved to a new one. And even with the increase in expenses, you'll need to also be increasing your savings rate. By the end of your 40s, you should have saved four times your salary. Now you will want to be maxing out your contributions to retirement accounts as well as monitoring your investments for performance.

Your 50s: You are now at your peak earning years and your saving rate needs to be at its highest. Your expenses are still pretty high, but by the end of this decade you will most likely be an empty nester and expenses should decrease. By the time you reach 59, you'll want to have saved seven times your income. Monitor your investments so you can make adjustments to increase your returns.

Your 60s: You're getting close to or have retired. Your mortgage may be paid off and expenses have decreased. Your savings should be at its peak, and you should have 10 times your income prior to retiring. You can now start to relax as you will receive distributions from your retirement accounts as well as Social Security benefits. You'll need to make sure you are informed about distribution requirements of your retirement accounts.

Your 70s and beyond: Now that you're retired, all of your expenses are being covered by your retirement account distributions and Social Security benefits. Hopefully, you have saved well and are reaping the benefits of all those years of saving.

As you go through the journey to retirement, you may not be able to accumulate the level of savings you need, but you should have acquired a good amount of savings for a comfortable retirement.

Take stock of how much you are saving every year and look for warning signs you are not saving enough. If you experience any of the following, you need to take a hard look at your financial situation to get on track:

✔ You have no idea how much money you're spending every month, which means you are most likely overspending.

✔ You don't have savings goals or a savings plan. If you don't have goals and a plan to achieve them, you will have a hard time saving for important milestones.

✔ You're living paycheck to paycheck. It's time to take a serious look at your finances to see what can be reduced or eliminated.

✔ You're putting off saving for retirement. It will get here quicker than you think, and this is the one thing you really need to start saving for as early as possible.

✔ You can't pay your credit card balance in full, which means you probably have significant debt.

✔ You don't have an emergency fund. You know the unexpected will happen and need to be prepared. ✔✔✔

Dealing with Bond Price Fluctuations

There are two primary factors that affect bond prices — interest rate changes and credit rating changes. Interest rate changes typically cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond's price falls, while the bond's price will increase when rates decrease. Also, bonds with longer maturity dates are more vulnerable to interest rate changes, since the difference will impact the bond for a longer time period.

Credit ratings also influence a bond's price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond's investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond's price tends to decline when a rating is downgraded and increase when a rating is upgraded. The price change brings the bond's yield in line with other bonds with a similar rating.

If you want to minimize the risk of price fluctuations, consider these tips:

✔ If you hold a bond to maturity, you receive the full principal value, so you won't be affected by any price fluctuations.

✔ Consider investing in bonds with shorter-term maturities.

✔ Design your bond portfolio using a ladder, so you'll have bonds coming due every year or so. This strategy typically lessens the effects of interest rate changes. Since the bonds are held to maturity, changing interest rates won't result in a gain or loss from a sale. Bonds are maturing every year or two, so your principal is reinvested over a period of time instead of in one lump sum.

✔ Choose bonds that match your risk tolerance. Safer bonds, such as U.S. Treasury bonds or investment-grade corporate bonds, are less susceptible to credit rating risks. ✔✔✔

Watch Out for Portfolio Mistakes

Investing is a gradual process — purchasing some investments and selling others as the years go by. After a period of years, this can result in a mixture of investments that don't fit your overall strategy. Thus, periodically review your portfolio, watching out for these mistakes:

✔ **You don't use an asset allocation strategy.** Many investors select individual investments over the years, not considering their portfolio's overall makeup. Add up all your investments and calculate what portion is invested in each category. The basic categories are stocks, bonds, and cash, but each of these also has many subcategories. Since subcategories can have very different risk levels, review those as well. Assess your current allocation and determine whether it fits your personal situation.

✔ **You have too many investments that aren't adding diversification to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments to their portfolio that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Before adding an investment to your portfolio, make sure it will further diversify your portfolio. Keep in mind that diversification does not ensure a profit or protect against loss in a declining market.

✔ **Your portfolio's return is lower than benchmark returns.** While everyone likes to think their portfolio is beating the market averages, many investors simply aren't sure. Review the return of each component of your portfolio, comparing it to a relevant benchmark. While you may not want to sell an investment that has underperformed for a year or two, at least monitor closely any investments that significantly underperform their benchmarks. Next, calculate your portfolio's overall rate of return and compare it to a relevant benchmark. Include all your investments — those in taxable accounts and retirement accounts. Also be sure to compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

✔ **You trade too frequently without adequate research.** With so many choices and so much information, it's tempting to trade often based simply on other people's recommendations. Yet, besides the tax and costs associated with trades, frequent traders often underperform those who trade less frequently. Instead, purchase investments you are willing to hold for the long term.

✔ **You don't consider income taxes when investing.** Using strategies that defer income taxes for as long as possible can make a substantial difference in your portfolio's ultimate size. 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.

To help maximize your portfolio's value, avoid these investment mistakes. Please call if you'd like help reviewing your investment portfolio. ✔✔✔

Do You Really Need 70%?

A general retirement planning rule of thumb indicates that you'll need 70% to 80% of your preretirement income. Many estimates now indicate that amount may be too little for those who want to live an active retirement lifestyle. Consider these tips:

✔ **Pay off your mortgage.** Mortgage payments often consume 30% or more of an individual's gross income. If you can't pay off your mortgage, consider selling your home and purchasing a smaller one for cash.

✔ **Get rid of other debts.** It's not unusual for consumer debt payments to equal 10% to 20% of an individual's take home pay.

✔ **Keep your automobile.** Instead of purchasing a new car every couple of years, keep your car.

✔ **Look for ways to reduce travel and leisure expenses.** Look for and use senior discounts.

✔ **Consider relocating.** You may be able to reduce your living expenses substantially by moving to another locale. However, this is more than a financial decision. You also need to decide whether you want to move away from family, friends, and familiar surroundings.

✔ **Work at least part time.** If you still don't have sufficient funds to support yourself during retirement, consider working at least part time. Even a small amount of annual earnings can help significantly in funding your retirement. ✔✔✔

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Market Data

	Month End			% Change	
Stocks:	Dec 24	Nov 24	Oct 24	2024	2023
Dow Jones Ind.	42544.22	44910.65	41763.46	12.9%	13.7%
S&P 500	5881.63	6032.38	5705.45	23.3	24.2
Nasdaq Comp.	19310.79	19218.17	18095.15	28.6	43.4
Total Stock Market	58399.25	60287.01	56595.25	22.2	24.1
Precious Metals:					
Gold	2616.45	2640.85	2734.15	26.5	14.1
Silver	29.44	30.08	32.69	21.4	2.1
Interest Rates:	Dec 24	Nov 24	Oct 24	Dec 23	Dec 22
Prime rate	7.50	7.75	8.00	8.50	7.50
Money market rate	0.42	0.43	0.43	0.48	0.33
3-month T-bill rate	4.23	4.42	4.49	5.26	4.35
20-year T-bond rate	4.86	4.45	4.58	4.20	4.14
Dow Jones Corp.	5.45	5.23	5.22	5.17	5.54
Bond Buyer Muni	4.46	4.26	4.35	4.48	4.64

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

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