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Financial Outlook

FALL 2023

Enjoy Life and Save for Retirement

Some people worry that when saving for retirement, they have to give up the things they enjoy. While there needs to be a balance between spending and saving, it doesn't mean you can't enjoy life.

Look at Your Current Situation and Set Goals

You should start by reviewing how you live and how you save. Make a list of questions about your lifestyle to assess what is most important to you:

- ❍ Am I happy with my lifestyle?
- ❍ Are there things I want to pursue?
- ❍ Do I have enough money to support my lifestyle and the things I want to pursue?

Prioritize your responses by order of importance, so you can budget for the things you really want to do.

Next, you will want to make a list of how you are managing your finances and savings:

- ❍ Am I able to cover my bills?
- ❍ How much am I saving for retirement?
- ❍ Am I saving enough for retirement?
- ❍ How much disposable income do I have every month?

Once you have answered these questions, it is time to look at your responses to figure out how you can accomplish both. You'll want to develop or revise both lifestyle and retirement goals, being as realistic as possible with your current financial situation. Also make sure your goals are specific, so you can assign dollar

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Myths about Bonds

Bonds are a core part of many people's investment portfolios. But that doesn't mean they're widely understood. In fact, there are many common myths about bonds, and following those myths could lead to poor investment decisions. Below, we debunk a few of the most common myths about bonds.

Myth 1: Bonds Are a Risk-Free Investment

It's true that investing in bonds is not as risky as some other investments, like stocks or real estate. But less risk doesn't equate to no risk. A bond issuer may default on their obligations, which could leave investors without their principal. Also, some bonds are riskier than others. Treasury bonds, which are guaranteed by the U.S. government, carry relatively little risk — the U.S. has never defaulted on its debt obligations. Corporate bonds, which are issued by companies, are generally riskier than government bonds. You can get an idea of the relative risk of a certain bond by reviewing its bond rating, often expressed as a letter grade. A triple-A bond means the issuer is extremely likely to meet its commitments. A bond with a C rating means the issuer is vulnerable.

Myth 2: Lower Returns Mean Investing in Bonds Isn't Worth It

Bonds may not be as glamorous as stocks and other investments, but that doesn't mean they don't have a place in your investment portfolio. Bonds are a way to add diversification to your portfolio; a stock-heavy portfolio can earn great returns, but it can also lose a lot of money fast if the market drops. Your stocks may eventually regain their losses, but if

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Enjoy Life

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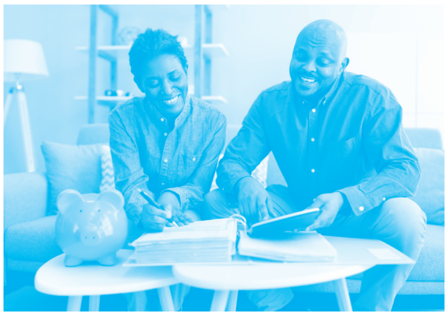

figures to them, such as:

- ❍ Golf once per week.
- ❍ Save $500 per month in retirement accounts.
- ❍ Travel abroad once per year.
- ❍ Establish an emergency account with six months of income.

Make a Plan

Now that you have established your goals, you need to figure out if you can make it all work. As part of your budget, add both your lifestyle goals and your retirement goals with specific dollar amounts for each.

If you can't meet all your goals within your budget, you will have to make decisions about what is most important. You should not put your retirement goals in jeopardy, nor should you give up on your lifestyle goals. You either need to look for other things you can cut from your budget or find ways to earn more income.

If golfing once a week is really important to you, what can you give up to make that happen? If you pack a lunch instead of eating lunch out, will that be enough money to cover your weekly golf game? It all comes down to what is most important without putting off saving for retirement.

Also assess your job. Are you making enough money for the type of job you have? Are you happy with your job? Is it worth trying to find another job that pays more money? Changing a job takes time and energy, but you need to decide if it is an option so you can have more disposable income.

Review and Reassess

You will want to review your goals and budget on a regular basis to determine if you need to make adjustments, especially if you are having trouble accomplishing your goals within your budget. Also, as time goes by, you will find that your goals will change and you need to adjust your plan as well.

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

Nurture Your IRA

It's tempting to pay little attention to an individual retirement account (IRA). After all, with a maximum contribution of $6,500 in 2023 ($7,500 if you are over age 50), how much can an IRA contribute to the vast sums you'll need for retirement? The answer is plenty, especially if you follow these tips:

- ❍ **Start contributing as soon as possible.** That way, tax-deferred or tax-free compounding of earnings can have a dramatic impact on your IRA's ultimate value. Consider the following example. Four individuals, ages 20, 30, 40, and 50, each contribute $5,000 to an IRA this year. What will that amount grow to when each person reaches age 65, assuming an 8% annual rate of return? The 50 year old will potentially have $15,861, the 40 year old will have $34,242, the 30 year old will have $73,927, and the 20 year old will have $159,602.*
- ❍ **Contribute every year until you reach retirement.** Even if you can't afford the maximum contribution, contribute something every year. Over a period of time, a modest investment program can grow to a significant sum. Assume that at age 30 you start contributing $5,000 per year to an IRA, earning 8% compounded annually. After one year, you'll have only $5,400. But that will grow to $29,333 after five years, $72,433 after 10 years, $228,810 after 20 years, and $861,581 after 35 years, when you turn age 65.* *(Keep in mind that an automatic investing program, such as dollar cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investments, consider your financial ability and willingness to continue purchases through periods of low price levels.)*
- ❍ **Select investments with care.** Your IRA should be a long-term investment vehicle for retirement, so your investments should be appropriate for that long time frame. Even modest changes in your rate of return can substantially impact your IRA's ultimate value. For example, assume you have $10,000 in your IRA, which will be invested for 30 years. If you earn an average rate of return of 6% compounded annually, your balance will equal $57,435. Increase that return to 8%, and your ending balance will equal $100,627, a difference of $43,192.*
- ❍ **Fund your IRA at the beginning of the year, rather than at the end of the year.** This allows your contributions and earnings to compound for a longer period. For example, assume you are 30 years old and make $5,000 IRA contribution at year-end for 35 years. If you earn 8% compounded annually, your IRA balance would equal $861,584 at age 65. Make the contribution at the beginning of the year instead, and your balance would equal $930,511, a difference of $68,927.* ❍❍❍

** These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment. They do not take into account the effects of commissions or any taxes that may be due.*

Myths about Bonds

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you need the money in the interim, you'll need to find other resources. Bonds can also provide a steady source of income, which may be appealing if you're at a point when you want to live off investment income. They are also a way to preserve your capital while still earning some returns. In addition, certain types of bonds offer tax advantages — income earned on municipal bonds is free of federal income tax and sometimes state and/or local income taxes, for example.

Myth 3: Bonds and Bond Funds Are Essentially the Same

Not exactly. In some ways, the difference between bonds and bond funds is similar to the difference between stocks and mutual funds. Like a stock mutual fund, with a bond fund, you give your money to a professional investment manager who chooses a range of bond investments on your behalf. With an individual bond, you have an investment in a single bond, which you hold until the bond's maturity date. Individual bonds have fixed payments, often semi-annually or quarterly; and if you hold the bond to maturity, you get your original investment back.

Bond funds, on the other hand, have fluctuating income based on how well the underlying bond investments perform. Bond funds are more liquid than individual bonds, however, which means it's easier to sell your investment if you need the cash. You'll also need to invest in a greater array of individual bonds to diversify the bond portion of your portfolio. Which one is right for you depends on your goals, your comfort level with investing, and other factors.

Myth 4: All Bonds Are Safe Investments

First, it's important to understand that there are no guarantees when it comes to investing — there's always risk. While bonds are generally considered less risky than stocks, that doesn't mean there's no risk, and some bonds are riskier than others. Bonds issued by the U.S. federal government carry minimal risk (for example, savings bonds or Treasury bonds). But similar bonds issued by a less stable country or government could carry much more risk. State and local bonds (called munis) come with a greater risk of default than bonds issued by the U.S. federal government. Corporate bonds can be risky too, especially so-called junk bonds.

Want to get more of the facts on bonds? Please call to discuss bonds in more detail. ❍❍❍

Asset Allocation Tips

You need to evaluate your risk tolerance, time horizon for investing, and return needs to determine how you should allocate your portfolio. To help, consider these points:

- ❍ The theory behind asset allocation is that different investment categories are affected differently by economic events and market factors. Some asset classes move in opposite directions while others move in the same direction at different speeds. By owning different types of assets, it is hoped that when one asset suffers a major decline, other assets will be increasing in value.
- ❍ Investments with higher return potential generally have higher risk and more volatility in year-to-year returns. Asset allocation allows you to combine more volatile investments with less volatile ones. This combination can help reduce the overall risk in your investment portfolio.
- ❍ Not only should you diversify across broad investment categories, such a stocks, bonds, and cash, you should also diversify within those categories.
- ❍ Assessing your risk tolerance is one of the most important, yet most subjective, parts of determining your asset allocation. You are trying to assess your emotional ability to stick with an investment when returns are less than expected.
- ❍ Your portfolio can become more aggressive as your time horizon lengthens, since you have more time to overcome downturns in investments. As your time horizon lengthens, you can add higher percentages of stocks to your portfolio.
- ❍ Make sure you have reasonable return expectations for various investment categories. Basing your investment program on return estimates that are too high could cause you to increase your portfolio's risk.
- ❍ In general, consider a more conservative allocation if you are older, have short-term needs for your money, have low earnings, have a low risk tolerance, or are uncomfortable with investing. A more aggressive allocation may be warranted if you have higher earnings, are younger, do not need your money for many years, or are an experienced investor.
- ❍ Time diversification is also important. By staying in the market through different market cycles, you reduce the risk of receiving a lower return than expected.
- ❍ Rebalance your portfolio at least annually. Over time, your actual asset allocation will stray from your desired allocation due to varying rates of return. Changes may be needed to bring your allocation back in line. ❍❍❍

FINANCIAL DATA

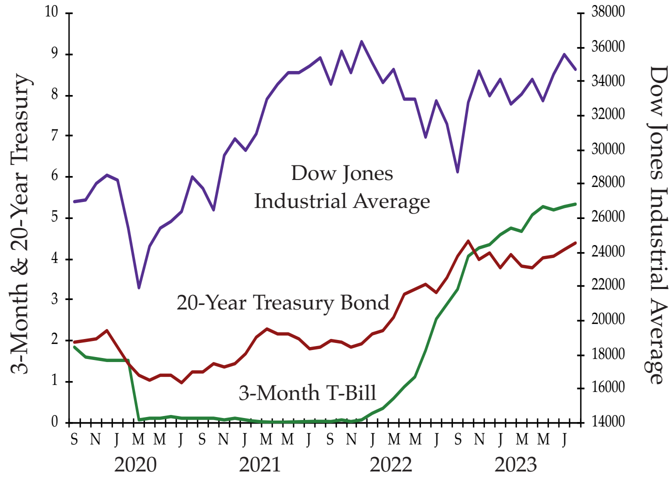
Indicator	Month-end Jun-23	Jul-23	Aug-23	Dec-22	Aug-22
Prime rate	8.25	8.50	8.50	7.50	5.50
Money market rate	0.54	0.56	0.57	0.33	0.15
3-month T-bill yield	5.18	5.28	5.34	4.35	2.88
10-year T-bond yield	3.81	3.97	4.09	3.88	3.15
20-year T-bond yield	4.06	4.22	4.39	4.14	3.53
Dow Jones Corp.	5.54	5.54	5.78	5.54	4.76
30-year fixed mortgage	7.24	7.38	7.66	6.80	6.03
GDP (adj. annual rate)#	+2.60	+2.00	+2.40	+2.60	-0.60

Indicator	Month-end Jun-23	Jul-23	Aug-23	% Change YTD	12-Mon.
Dow Jones Industrials	34407.60	35559.53	34721.91	4.8%	10.2%
Standard & Poor's 500	4450.38	4588.96	4507.66	17.4%	14.0%
Nasdaq Composite	13787.92	14346.02	14034.97	34.4%	18.8%
Gold	1912.25	1970.65	1942.30	7.2%	13.2%
Consumer price index@	304.13	305.11	305.69	2.7%	3.2%
Unemployment rate@	3.70	3.60	3.50	-5.4%	0.0%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's*, *Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

SEPTEMBER 2019 TO AUGUST 2023



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

CONSIDER MATURITY DATES

Bonds can be purchased with maturity dates ranging from several weeks to several decades. Before deciding on a maturity date, review how that date affects investment risk and your ability to pursue your investment goals.

Typically, yield increases as the maturity date lengthens, since you assume more risk by holding a bond for a longer time. Investors are often tempted to purchase bonds with long maturity dates to lock in higher yields, but that strategy should be used with care. If you purchase a long-term bond knowing you'll need to sell before the maturity date, interest rate changes can significantly affect the bond's market value. Two fundamental concepts about bond investing apply:

- **INTEREST RATES AND BOND PRICES MOVE IN OPPOSITE DIRECTIONS.** A bond's price rises when interest rates fall and declines when interest rates rise. The existing bond's price must change to provide the same yield to maturity as an equivalent, newly issued bond with prevailing interest rates. You can eliminate the effects of interest rate changes by holding the bond to maturity, when you will receive the full principal amount.
- **BONDS WITH LONGER MATURITIES ARE MORE SIGNIFICANTLY AFFECTED BY INTEREST RATE CHANGES.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, the bond's price must change more to compensate for the interest rate change.

Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you need your principal. In many cases, you may not know exactly when that will be, but you should at least know whether you are investing for the short, intermediate, or long term. ❍❍❍

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