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Financial Solutions for the Life You Are Living and the One You Want to Live

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SPRING 2023

Headline Risk - At It Again!

Everywhere you look, you see sensational headlines. The latest ones deal with the debt ceiling. On CNN.com, on May 24th, just last week, the head line is, "It's going to be catastrophic" (1:59 p.m. ETD, Wed. May 24, 2023). Wow! I wonder what will follow the following week. Perhaps, "Another interest rate hike likely to doom your portfolio" might be a fitting title. I find the headlines fascinating. Generally speaking, bad news sells. The editors must just sit around to and say, "How can we scare more people today?".

First and foremost, things are looking much brighter as we go into the summer. Not only do we have nice weather, but we are getting very close to the end of the interest rate hiking cycle. This is very good news for investments, both on the equity (stocks) and on the fixed income side (bonds).

Good news #1: Historically, any time Municipal Bonds have had a negative year, the subsequent year has up by double digits almost every time. Municipalities are doing well and flush with cash. Have you seen your real estate tax bill?

Good news #2: The general consensus is we will have a rate 'cut' by the end of the year. Interest rates being lower can help businesses and consumers alike. If you have a lower payment, that is more money to save, invest, and helps your discretionary spending. Those days will come again, hopefully towards the end of the year.

Good news #3: The Consumer Price Index (CPI) reached 9.1% last summer. That is a big ouch. The figure appears to be declining and again the general consensus is this number should be near 3.5% by the end of the year. It is not the 2% target that the FED was seeking, but it is definitely heading in the right direction.

Good news #4: The price of diesel is down 33% from last summer. If truckers are paying more to transport, those higher numbers

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From left to right: Andrew, Polly, Katy, & Joseph

Risk - At It Again!

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trickle into consumer goods. That trend is better. Regular gas prices are also headed in the right direction from a year ago. EV purchases are on a tear and this can be one of the catalysts. OPEC has cut production and we are headed into summer, so oil may not continue to decline.

Good news #5: Jobless claims and the unemployment rate are both still doing well; arguably and unfortunate, too well. The U.S. has two job openings for every person that wants to work. Blue/White collar jobs, openings are everywhere.

Good news #6: Traveling has now surpassed COVID levels. There has been a ton of pent-up demand. Travel and leisure jobs continue to gain. Plus, it seems more people are retired and traveling.

Bad News is Good News #6: Back to the FED again. A recession is now looking like it may happen as the following are negative 'current' indicators: Housing permits, Job Sentiment, Retail Sales, Wage Growth, Commodities, Profit Margins, Money Supply, Yield Curve to name a few. There are two positives: Employment and Trucking. Hopefully, there are enough negative economic readings that the Fed's work may be done. It is strange to think that they have to inflict short term pain, to avoid long term 'real pain' with runaway inflation. They appear to have done their job. Remember, by the time a recession officially happens, we may be well past it or on the way passed it.

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This summer, we have a new intern, Joseph Prohaska. Joe is in the Business Administration CFP® Track program at Virginia Tech. He has only been here a few weeks but his customer service has been exceptional. He is excited to be a part of the team this summer.

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During the time of June 8 to June 17th, I will be in the Copperbelt of Zambia with my Rotary Club. This is not a safari or a vacation! This is a due diligence trip for water and sanitation projects that we have been working on since 2007. This is my fifth trip to the area. We anticipate visiting between 20 and 25 schools over the 7 days we will be in the country. I may do a write up with some pictures in the next newsletter, as that got more attention some years ago than typical financial updates.

If you have any questions, please call the office. They will be able to help you. Lihong (Katy) Kan has been with us for 3.5 years and Polly has worked in the field for 30 years. If it is urgent, they know how to get in touch with me. Otherwise, I will return on Mon-

Sincerely,

Andrew D. Wade, CFP®
President

Tips for the Sandwich Generation

If you are caring for young children and aging parents, you are part of the sandwich generation. This can be a very stressful situation. Developing a financial plan for your parents, your children, and yourself will help you navigate the challenges you face.

A Retirement Income Plan for Your Parents — If you haven't already, it's time to have a serious money talk with your parents. In addition to understanding their wishes for medical treatment and long-term care, you should also understand if they have adequate retirement income. Helping your parents develop a retirement income plan will help ensure that they can cover their expenses in retirement.

Research Long-Term Care Options — You should research ways to pay for long-term care if your parents need it. If your parents are in good health and still relatively young, they may want to consider purchasing a policy before it becomes cost-prohibitive.

Prepare an Estate Plan — If your parents do not have an estate plan, it's time to create one so that their wishes are met. Help them through this process, including establishing a will, trust, advanced health care directives, and medical and durable powers of attorney.

Inventory Assets — Help get your parents' financial assets in order by locating all important documents, including financial accounts, retirement accounts, wills, trusts, medical directives, powers of attorney, and digital assets.

Develop a College Savings Plan — As you switch the financial focus from your parents to your children, start by planning for their largest expense: their college educations. You should help your children plan for their life after high school. Engage your children in this process by having them research scholarships, grants, and work-study programs.

Your Turn — Sandwiched between your parents and children, you may not have developed your own financial plan. It is important to take the time to get your own financial house in order. Creating a financial plan with long- and short-term goals will give you peace of mind that your own financial life is on track. Please call if you'd like to discuss this in more detail. ❍❍❍

Myths about College Planning

The college planning, admission, and financial aid process can seem opaque to both students and their parents. And given all the concerns about rising tuition and confusion about how aid is allotted, it's not surprising that some myths have arisen about the best way to plan for college costs. The truth is that much conventional wisdom about college planning is more fiction than fact. Below, we bust some of the biggest college planning myths so you'll be better prepared to give your children the start in life they deserve.

Myth #1: We earn too much to qualify for financial aid. Some families with high incomes and a lot of assets may indeed not qualify for need-based financial aid. The truth is, financial aid formulas are complicated, and it's hard to predict how much or what type of aid you might get if you don't apply. Filling out the Free Application for Federal Student Aid (FAFSA) as well as any institutional aid forms is almost always worth it, just to see what happens.

Myth #2: I'll never be able to afford to send my child to a private school. There's no doubt that private colleges and universities are expensive, and there's a lot of debate about whether they're worth the cost. But keep in mind that while the sticker price may be high, private schools typically have more money to spend on financial aid than their public counterparts. And if a student is exceptionally talented, a private school may offer generous financial aid to encourage him/her to attend.

Myth #3: It's better to borrow money from my retirement accounts for tuition than to have my child take out student loans. Borrowing money from your 401(k) or other retirement accounts to pay for college is not always a good idea. Unless you've oversaved for retirement (and few people have), you're going to need that money when you stop working. While you don't want to overburden your kids with debt, a small amount in student loans may give them skin in the game, so to speak — and modest student loan debt at a low interest rate won't jeopardize your child's future.

Myth #4: I'm not sure my child will attend a four-year college, so I shouldn't bother to set up a 529 plan. The funds you put in a 529 plan can be used for qualified expenses at a wide variety of schools, including community colleges and accredited trade and vocational schools. Plus, if your child ends up not needing the money, you can simply use the money for noncollege expenses, though that comes with a penalty. But whatever you do, don't let the chance that your child won't attend school stop you from saving.

Myth #5: My child is a genius or a great athlete. I'm sure they'll get a scholarship, so I don't need to save. Scholarships are a great way to help with college, and a significant amount in gift aid for education is awarded to students every year. But unless your child is a true phenom, you can't be sure he'll get a piece of that pie — or how much, if he does.

Myth #6: We should put all the money we save for college in a 529 plan. Not necessarily. A 529 plan has many advantages, like tax-free withdrawals for educational expenses. But you may want to diversify your savings. If your son or daughter gets a scholarship, drops out, or doesn't attend college, you can use those other savings however you want, without paying a penalty (unlike a 529 plan).

Myth #7: I should put college savings in my children's names. It certainly seems like it might be a good idea to keep your child's college savings in his/her own name. But that's not always a good idea. For one, college financial aid formulas generally see 20% of a student's total assets as being available to pay for education every year, compared to just 5.6% of a parent's assets. More assets in their name could translate into less financial aid for your child. And, not all young adults will have the wisdom to use that money wisely. ❍❍❍

When Adult Children Return Home

Once your child has graduated from college, don't assume that your financial responsibilities are over. Adult children return home to live for a variety of reasons. Use the situation to reinforce financial concepts:

✔ **Set a time frame.** Don't let your child move in for an open-ended time period. Financial goals should be set and followed, so your child is working toward financial independence.

✔ **Charge rent.** There are increased costs when your child returns home — additional food, phone bills, utilities, etc. Although you don't have to charge a market rental rate, you should charge something. If you're uncomfortable taking money from your child, put the rent money in a separate account and use it to help your child when he/she moves out. Also decide which chores you expect your child to perform.

✔ **Put your agreement in writing.** While putting everything in writing may seem too businesslike, it gives you an opportunity to clearly spell out your expectations and the rules of the house. This can prevent future misunderstandings. ❍❍❍

Emotional Issues That Prevent Estate Planning

Many people have a difficult time preparing for what happens to their estate after they die. There are many issues that must be faced to prepare a will or a trust, and for some, these issues can become emotional hurdles. If it is important to you to protect your loved ones and your estate when you die, you need to acknowledge these emotions and accept that they are just part of the process.

Facing Mortality

Death is not something that anyone really wants to talk about, but it is inevitable. Some are superstitious that even saying the word death might cause it to actually happen. There really isn't a solution to your fears, but you can at least be reassured that by developing a plan you will be taking care of your loved ones.

Not Being in Control

Many think of estate planning as relinquishing control of their assets, when it is actually quite the opposite. Developing a will or a trust will ensure that your assets will be handled exactly the way you want them to be handled. There are approaches to developing an estate plan where you can maintain control while protecting your assets.

Family Decisions

Depending on your family's situation, there are many decisions that have to be made that can cause family friction. Who should be the executor? What should you leave to each family member? Who is best suited to take over the family business? Does one child need more financial help than others? Should all your children be treated equally?

These are difficult issues, but keep in mind if you don't make them, you could leave your loved ones with a mess and the potential that your family could be torn apart by arguing over your estate.

Costs

Costs to develop an estate plan will vary depending on your family's situation. Think of your estate plan as a gift to your family and peace of mind for you that your final wishes will be carried out. Make sure you have a full understanding of the costs before proceeding with the development of the plan. ❍❍❍

Diversifying All Your Assets

✔ **Your most significant asset is probably your ability to earn an income.** If you work for a company in a volatile industry, your spouse might want to seek employment at a more stable company. No matter where you work, don't purchase too much of your company's stock, even if it is through a 401(k) plan. Since your current and future income potential is closely tied to the company you work for, you want to diversify your other assets.

✔ **Keep an eye on the outlook for your home's value.** Your home's appreciation potential is often tied to economic growth in your area. If your area is dominated by a certain industry, the prospects for that industry can also impact your home's value. Thus, you may not want to own stocks in that same industry.

✔ **Adequately diversify your investment portfolio.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, real estate, and other alternatives. Also diversify within investment categories.
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"Do what you can, with what you have, where you are."

-Theodore Roosevelt