Investment News

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October Is National Financial Planning Month

Saving is a great start, but planning to reach your financial goals is even better.

Are you saving for retirement? Great. Are you planning for retirement? That is even better. Planning for your retirement and other long-range financial goals is an essential step – one that could make achieving those goals easier.

Saving without investing isn't enough. Since interest rates are so low today, money in a typical savings account barely grows. It may not even grow enough to keep up with inflation, leaving the saver at a long-term financial disadvantage.

Very few Americans retire on savings alone. Rather, they invest some of their savings and retire mostly on the accumulated *earnings* those invested dollars generate over time.

Investing without planning usually isn't enough. Most people invest with a general idea of building wealth, particularly for retirement. The problem is that too many of them invest without a plan. They are guessing how much money they will need once they leave work, and that guess may be way off. Some have no idea at all.

Growing and retaining wealth takes more than just investing. Along the way, you must plan to manage risk and defer or reduce taxes. A good financial plan – created with the assistance of an experienced financial professional – addresses those priorities while defining your investment approach. It changes over time, to reflect changes in your life and your financial objectives.

With a plan, you can set short-term and long-term goals and benchmarks. You can estimate the amount of money you will likely need to meet retirement, college, and health care expenses. You can plot a way to wind down your business or exit your career with confidence. You can also get a good look at your present financial situation – where you stand in terms of your assets and liabilities, the distance between where you are financially and where you would like to be.

Last year, a Gallup poll found that just 38% of investors had a written financial plan. Gallup asked those with no written financial strategy why they lacked one. The top two reasons? They just hadn't taken the time (29%) or they simply hadn't thought about it (27%).[1]

October is National Financial Planning Month – an ideal time to plan your financial future. The end of the year is approaching and a new one will soon begin, so this is the right time to think about what you have done in 2016 and what you could do in 2017. You might want to do something new; you may want to do some things differently. Your financial future is in your hands, so be proactive and plan.

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2016 Market Performance 01/01/2016 to 09/30/2016

DJIA ^DJI Up 5.07%
S&P 500 ^GSPC Up 5.56%
NASDAQ ^IXIC Up 6.08%
Russell 2000 ^ RUT Up 10.19%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

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Characteristics of the Millionaires Next Door

The habits and values of wealthy Americans.

Just how many millionaires does America have? By the latest estimation of Spectrem Group, a research firm studying affluent and high net worth investors, it has more than ever before. In 2015, the U.S. had 10.4 million households with assets of $1 million or greater, aside from their homes. That represents a 3% increase from 2014. Impressively, 1.2 million of those households were worth between $5 million and $25 million.[1]

How did these people become rich? Did they come from money? In most cases, the answer is no. The 2016 edition of U.S. Trust's *Insights on Wealth and Worth* survey shares characteristics of nearly 700 Americans with $3 million or more in investable assets. Seventy-seven percent of the survey respondents reported growing up in middle class or working class households. A slight majority (52%) said that the bulk of their wealth came from earned income; 32% credited investing.[2]

It appears most of these individuals benefited not from silver spoons in their mouths, but from taking a particular outlook on life and following sound financial principles. U.S. Trust asked these multi-millionaires to state the three values that were most emphasized to them by their parents. The top answers? Educational achievement, financial discipline, and the importance of working.[2]

Is education the first step toward wealth? There may be a strong correlation. Ninety percent of those polled in a recent BMO Private Bank millionaire survey said that they had earned college degrees. (The National Center for Education Statistics notes that in 2015, only 36% of Americans aged 25-29 were college graduates.)[3]

Interestingly, a lasting marriage may also help. Studies from Ohio State University and the National Bureau of Economic Research (NBER) both conclude that married people end up economically better off by the time they retire than singles who have never married. In fact, NBER finds that, on average, married people will have ten times the assets of single people by the start of retirement. Divorce, on the other hand, often wrecks finances. The OSU study found that the average divorced person loses 77% of the wealth he or she had while married.[3]

Most of the multi-millionaires in the U.S. Trust study got off to an early start. On average, they began saving money at 14; held their first job at 15; and invested in equities by the time they were 25.[2]

Most of them have invested conventionally. Eighty-three percent of those polled by U.S. Trust credited buy-and-hold investment strategies for part of their wealth. Eighty-nine percent reported that equities and debt instruments had generated most of their portfolio gains.[2]

Many of these millionaires keep a close eye on taxes & risk. Fifty-five percent agreed with the statement that it is "more important to minimize the impact of taxes when making investment decisions than it is to pursue the highest possible returns regardless of the tax consequences." In a similar vein, 60% said that lessening their risk exposure is important, even if they end up with less yield as a consequence.[2]

Are these people mostly entrepreneurs? No. The aforementioned Spectrem Group survey found that millionaires and multi-millionaires come from all kinds of career fields. The most commonly cited occupations? Manager (16%), professional (15%), and educator (13%).[4]

Here is one last detail that is certainly worth noting. According to Spectrem Group, 78% of millionaires turn to financial professionals for help managing their investments.[4]

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The Trump & Clinton Budget Proposals

A look at the two plans & the effects they might have over the next decade.

Hillary Clinton & Donald Trump have big plans for America. How might their proposed federal budgets impact the federal deficit and the national debt?

Any discussion of this must proceed from a fundamental understanding: regardless of who wins the election, the Congressional Budget Office estimates that the deficit will near $800 billion in 2020.[1]

Hillary Clinton's budget would boost health, education, & infrastructure spending. It would increase Affordable Care Act subsidies; resolve the "family glitch," making some households ineligible for such credits; and eliminate the "Cadillac tax" on "high-cost," employer-sponsored health plans. It would direct grants to states, so that students whose parents earn less than $85,000 a year could attend public universities in their home states for free. (That threshold would incrementally rise to $125,000 within four years of implementation.) Another $275 billion (or more) would be spent on projects to rebuild highways and bridges.[1,2,3]

To help cover the increased expenditures resulting from the proposals in her budget, Clinton would utilize the 3.8% investment surtax, which is currently levied on incomes greater than $200,000 or $250,000 for individuals and couples, respectively, and apply it to pass-through business income as well. Thus, this surtax would not only be implemented to eligible households, but also to limited partners, members of LLCs and owners of S-corporations. In addition, owners of CPA firms, law firms, consulting firms and other professional services businesses would face payroll taxes on their incomes.[3]

Under the Clinton plan, the non-partisan Committee for a Responsible Federal Budget sees the federal government spending $350 billion more on higher education, an additional $300 billion on infrastructure, $300 billion on paid family leave and almost $500 billion on other programs over the next decade. About $1.25 trillion in tax increases would offset this, it projects.[2,3]

Donald Trump's budget would also carry out some big changes. As of late August, Trump had not released a greatly detailed budget proposal. He has outlined some moves he would like to make. For one, Trump would do away with the Affordable Care Act. He would also curtail illegal immigration, and, possibly deport millions of undocumented workers. Each of these plans would take $50 billion to accomplish, according to CRFB estimates. Trump says that he would "at least double" what Clinton proposes to assign to infrastructure repairs, meaning an expenditure of $500 billion or more. He also seeks to overhaul the Department of Veterans Affairs to make the health care it provides more privatized. That could cost about $500 billion.[2,4]

Tax reform is high on Trump's agenda: he proposes eliminating the estate tax, capping the corporate income tax at 15%, and raising the standard deduction to $25,000 for single filers and $50,000 for joint filers. These tax reforms would reduce federal government revenue by around $9.25 trillion over the next decade, the CRFB projects.[2,5]

How could these budget ideas impact the federal deficit over the next 10 years? The CRFB analyzed each candidate's proposals this summer and made calculations based on CBO forecasts of cumulative GDP from 2017-2026. The CRFB notes that if the status quo simply continued, federal revenues would run 4.0% less than federal spending across the next decade. Under Clinton's proposals, the gap would be 4.1%; under Trump's proposals, it would be 9.0%.[2]

And how about the national debt? The CRFB forecasts the national debt rising by $250 billion under the Clinton budget and $11.5 trillion under the Trump budget.[1]

In terms of reducing the debt, both Trump and Clinton may be promising more than they can deliver. CRFB projections show that if Congress implemented Clinton's major budget proposals, the federal government would have to reduce overall spending 6-15%, raise marginal tax rates 3.5-8.5%, ramp up real GDP growth 35-125%, or, possibly, even use these moves in tandem to keep the national debt from rising further.[6]

Trump has volunteered a radical idea to attack the debt: a haircut for owners of Treasuries. Institutional investors would redeem Treasuries at less than their face value. So would individual investors, including seniors and retirement savers. Economists have roundly criticized this suggestion.[6]

In the future, these budget proposals may be greatly amended. Any politician makes compromises in pursuit of a legislative goal, and the politician who becomes our next president will, undoubtedly, make or accept compromises when it comes to his or her envisioned budget.

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Is This the Season to Change Jobs?

The top financial considerations for those ready to make a move.

Switching from one job to another can literally pay off. Data from payroll processing giant ADP confirms that statement. In the first quarter of this year, the average job hopper realized a 6% pay boost. The salary increase averaged 11% for workers younger than 25.[1]

A recent LinkedIn study found that Generation Y is making job switching something of a habit: on average, millennials will change jobs four times from age 22-32. This compares to an average of two job moves in the first decade out of college for Generation X.[2]

As you change jobs at any age, you need to take care of a few things during the transition. On your way to (presumably) higher pay, be sure you address these matters.

How quickly can you arrange health coverage? If you already pay for your own health insurance, this will not be an issue. If you had coverage at your old job and now need to find your own, fall is the prime time to start shopping for it. Open enrollment season at the Health Insurance Marketplace runs from November 1 to January 31. If you enroll in a plan by December 15, 2016, your coverage will begin on January 1, 2017.[3]

If you were enrolled in an employer-sponsored health plan, you need to find out when the coverage from your previous job ends – and, if applicable, when coverage under your new employer's health plan begins. If the interval between jobs is prolonged, and COBRA will not cover you for the entirety of it, you may want to check whether you can obtain coverage from your alumni association, your guild or union, or AARP. If you are leaving a career to start a business, confer with an insurance professional to search for a good group health plan.

What happens with your retirement savings? You likely have four options regarding the money you have saved up in your workplace retirement plan: you can leave the money in the plan, roll it over into an IRA, transfer the assets into the retirement plan at your new job (if the new employer allows), or cash out (the withdrawal will be taxed and you may be hit with an early withdrawal penalty as well).[4]

You will want to see how quickly you can start saving and investing through your new employer's retirement program, whether you are able to transfer assets from the old plan into the new one or not. If the company offers a match, when will it apply?

Can you manage your cash flow effectively between one job & the next? You do not want to tap your emergency fund or your retirement accounts for cash during the transition, so do the little things to guard against that possibility. Postpone big purchases, avoid running up large credit card debts you will regret later, eat in rather than out, and buy what you really need rather than what you merely want. See if you can put off most of your holiday spending until late November. A cash flow worksheet (which can be found online, for free) can help you track your essential and discretionary household spending.

Each year, about 20 million Americans move on to a new job. If you will soon join their ranks, make sure that you keep household money and insurance matters top of mind, and strive to keep saving for your future at your new workplace.

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