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Set Goals as You Save & Invest

Turn your intent into a commitment.

Goals give you focus. To find and establish your investing and saving goals, first ask yourself what you want to accomplish. Do you want to build an emergency fund? Build college savings for your child? Have a large retirement fund by age 60? Once you have a defined motivation, a monetary goal can arise.

It can be easier to dedicate yourself to a goal rather than a hope or a wish. That level of dedication is important, as saving and investing usually comes with a degree of personal sacrifice. When you dedicate yourself to a saving/investing goal, some positive financial "side effects" may occur.

A goal encourages you to save consistently. If you are saving and investing to reach a specific dollar figure, you likely also have a date for reaching it in mind. Pair a date with a saving or investing goal, and you have a time horizon, a self-imposed deadline, and you can start to see how you need to save or invest to try and achieve your goal, and what kind of savings or investments to put to work on your behalf.

You see the goal within a larger financial context. This big-picture perspective may help you from making frivolous purchases you might later regret or taking on a big debt that might impede your progress toward reaching your target.

You see clear steps toward your goal. Saving $1 million over a lifetime might seem daunting to the average person who has never looked at how it might be done incrementally. Once the math is in place, it might not seem so inconceivable. The intimidation of trying to reach that large number gives way to confidence – the feeling that you could realize that objective by contributing a set amount per month over a period of years.

Those discrete steps can make the goal seem less abstract. As you save and invest, you may make good progress toward the goal and attain milestones along the way. These milestones are affirmations, reinforcing that you are on a positive path and that you are paying yourself first.

Additionally, the earlier you define a goal, the more time you have to try and attain it. Time is certainly your friend here. Say you want to invest and build up a retirement fund of $500,000 in 30 years. If you save $500 a month for three decades through a retirement account returning 7% annually, you will have $591,839 when that 30-year period ends. If you give yourself just 20 years to try and save $500,000 with the same time frame and rate of return, you may need to make monthly contributions of about $975. (To be precise, the math says that over two decades, monthly contributions of about $975 will leave you with $501,419.)[1]

When you save and invest with goals in mind, you make a commitment. From that commitment, a plan or strategy emerges. In contrast, others will save a little here, invest a little there, and hope for the best – but as the saying goes, hope is not a strategy.

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Horwitz & Associates
1650 Lake Cook Road, Suite 190
Deerfield, IL 60015

Phone: 224-632-4600
Fax: 224-632-4590

Www.HorwitzAdvisors.com
Ed Horwitz — Ed@HorwitzAdvisors.com
Gerald Horwitz — GAH@HorwitzAdvisors.com

2018 Market Performance 01/01/2018 to 04/30/2018

DJIA ^DJI Down –2.76%
S&P 500 ^GSPC Down –1.40%
NASDAQ ^IXIC Up 1.96%
Russell 2000 ^RUT Up 0.41%

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

Source: http//finance.yahoo.com

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Smart Financial Steps After College

A to-do list for the twentysomething.

Did you recently graduate from college? The years after graduation are crucial not only for getting a career underway, but also for planning financial progress. Consider making these money moves before you reach thirty.

Direct a bit of your pay into an emergency fund. Just a little cash per paycheck. Gradually build a cash savings account that can come in handy in a pinch.

Speaking of emergencies, remember health insurance. Without health coverage, an accident, injury, or illness represents a financial problem as well as a physical one. Insurance is your way of managing that financial risk. A grace period does come into play here. If your employer does not sponsor a health plan, remember that you can stay on the health insurance policy of your parents until age 26. (In some states, insurers will let you do that until age 29 or 31.) If you are in good health, a bronze or silver plan may be a good option.[1,2]

Set a schedule for paying off your college debt. Work toward a deadline: tell yourself you want to be rid of that debt in ten years, seven years, or whatever seems reasonable. Devote some money to paying down that debt every month, and when you get a raise or promotion, devote a bit more. Alternately, if you have a federal college loan balance that seems too much to handle, see if you qualify for an income-driven or graduated repayment plan. Either option may make your monthly payment more manageable.[3]

Watch credit card balances. Use credit when you must, not on impulse. A credit card purchase can make you feel as if you are buying something for free, but you are actually paying through the teeth for the convenience of buying what you want with plastic. As Bankrate.com notes, the average credit card now carries a 16.8% interest rate.[4]

Invest. Even a small retirement plan or IRA contribution has the potential to snowball into something larger thanks to compound interest. At an 8% annual return, even a one-time, $200 investment will grow to $2,013 in 30 years. Direct $250 per month into an account yielding 8% annually for 30 years, and you have $342,365 three decades from now. That alone will not be enough to retire on, but the point is that you must start early and seek to build wealth through one or more tax-advantaged retirement savings accounts.[5]

Ask for what you are worth. Negotiation may not feel like a smart move when you have just started your first job, but two years in or so, the time may be right. It can literally pay off. Jobvite, a maker of recruiting software, commissioned a survey on this topic last year and learned that only 29% of employees had engaged in salary negotiations at their current or most recent job. Of those who did, 84% were successful and walked away with greater pay.[6]

Of course, you also have the power to negotiate your pay when you change jobs. That ability is not always acknowledged. Robert Half, the staffing firm, recently hired independent researchers to poll 2,700 U.S. workers employed in professional environments. The pollsters found that just 39% of these workers attempted to negotiate a better salary upon their most recent job offer. The percentage was higher for men (46%) than for women (34%).[7]

Financially speaking, your twenties represent a very important time. Too many people look back over their lives at fifty or sixty and wish they had been able to save and invest earlier. These are the same people who may face an uncertain retirement. Rather than be one of them years from now, do things today that may position you for a better financial future.

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Adjusting Your Portfolio as You Age

As you approach retirement, it may be time to pay more attention to investment risk.

If you are an experienced investor, you have probably fine-tuned your portfolio through the years in response to market cycles or in pursuit of a better return. As you approach or enter retirement, is another adjustment necessary?

Some investors may think they can approach retirement without looking at their portfolios. Their investment allocations may be little changed from what they were 10 or 15 years ago. Because of that inattention (and this long bull market), their invested assets may be exposed to more risk than they would like.

Rebalancing your portfolio with your time horizon in mind is only practical. Consider the nature of equity investments: they lose or gain value according to the market climate, which at times may be fear driven. The larger your equities position, the larger your losses could be in a bear market or market disruption. If this kind of calamity happens when you are newly retired or two or three years away from retiring, your portfolio could be hit hard if you are holding too much stock. What if it takes you several years to recoup your losses? Would those losses force you to compromise your retirement dreams?

As certain asset classes outperform others over time, a portfolio can veer off course. The asset classes achieving the better returns come to represent a greater percentage of the portfolio assets. The intended asset allocations are thrown out of alignment.[1]

Just how much of your portfolio is held in equities today? Could the amount be 70%, 75%, 80%? It might be, given the way stocks have performed in this decade. As a StreetAuthority comparison notes, a hypothetical portfolio weighted 50/50 in equities and fixed-income investments at the end of February 2009 would have been weighted 74/26 in favor of stocks by the end of February 2018.[1]

Ideally, you reduce your risk exposure with time. With that objective in mind, you regularly rebalance your portfolio to maintain or revise its allocations. You also may want to apportion your portfolio, so that you have some cash for distributions once you are retired.

Rebalancing could be a good idea for other reasons.
Perhaps you want to try and stay away from market sectors that seem overvalued. Or, perhaps you want to find opportunities. Maybe an asset class or sector is doing well and is underrepresented in your investment mix. Alternately, you may want to revise your portfolio in view of income or capital gains taxes.

Rebalancing is not about chasing the return, but reducing volatility. The goal is to manage risk exposure, and with less risk, there may be less potential for a great return. When you reach a certain age, though, "playing defense" with your invested assets becomes a priority.

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Why Life Insurance Matters for New Homeowners

It addresses a significant financial risk.

If you buy a home and you have no life insurance, there is a financial risk. It may not be immediately evident, but it must be acknowledged – and it should be addressed.

What if you die, and your spouse or partner is left to pay off the mortgage alone? This possibility may seem remote, and it may be hard for you to contemplate. It deserves consideration regardless.

Imagine your loved one having to handle that 15-year or 30-year debt by themselves. (Or the debt on an adjustable-rate loan or jumbo mortgage.) Additionally, how would that heavy financial burden come to impact your children's lives? These tragedies do occur and do bring these kinds of emotional and financial challenges. A life insurance payout may provide some help for a homeowner in the event of such a crisis.

When you buy life insurance, the coverage amount should reflect your mortgage debt. You will need enough coverage to help your spouse, partner, or heirs deal with the outstanding home loan balance, should you pass away prematurely.[1,2]

Term life insurance may meet the need. If you are the typical homeowner, you will stay in your current home for about ten years. (Back in 2006, the average homeowner tenure was just six years.) As you may move up, move to another region with different home values, or even rent in the future, a term policy that lets you renew or modify coverage could suffice.[1]

On the other hand, permanent life insurance may be more suitable. The reality is that inflation decreases the value of term life coverage over time. Suppose you buy a 20-year term policy offering $250,000 of coverage today. At just 4% annual inflation, that coverage will be worth 56% less in 2038 – and your home may be worth much more in 2038 than it is now.[2]

Moreover, the cost of term life insurance rises as you age. A term life policy is cheap when you are young, but if you want a new one after your initial term policy sunsets, you may find the premiums dramatically more expensive. In contrast, premiums on a permanent (whole) life policy are locked in, effectively becoming more manageable as time goes by. You may want permanent life for other financial reasons as well, reasons that have nothing to do with your home. A permanent life policy has the potential to accumulate cash value in the future; a term life policy does not.[2]

A homeowner should carefully consider life insurance coverage options. If you lack coverage today, talk to a qualified insurance professional about your options, so that you can insure yourself for tomorrow.

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