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# THE FINANCIAL FORMULA

Giving You The Financial Information You Need

February 2015

Has everyone had enough of the cold weather yet? Enjoy this month's edition of The Financial Formula, and please let us know if you have any questions! - Matt & Marty

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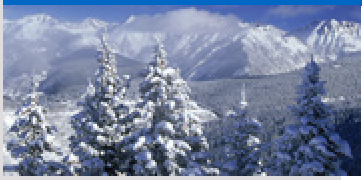
## In This Issue



## Your New Year's $ Resolutions

Lets look at 10 steps you can follow to start off 2015 a little bit better money-wise.

Let's face it: after the holiday season spending spree is finished, most of us feel like our bank accounts are a bit lighter than we'd like them to be.

With this in mind, let's look at 10 steps you can follow to start off 2015 a little bit better money-wise and hopefully stay with throughout the year:

1. ***Stop getting nickeled & dimed by everyone*** - but don't start doing this to everyone else. Why let stores, friends, family, etc., take advantage of you when it comes to money? Be fair about it & don't get taken advantage of by anyone. Instead, use coupons, negotiate better deals/terms, ask firmly but nicely for the money you're owed. Stop getting the short end of the stick - you deserve better.

2. ***Put a budget in place AND stick to it.*** No sense in going about spending your money aimlessly - let's figure out how to better us this green stuff, eh? Nothing will help you do that better than figuring out what goes out & what comes in. No excuses either - plenty of cheap & easy to use software that can help you create/track your budget. This way, you can figure out where you're going wrong money-wise & put a stop to it.

3. ***Put a financial plan in place AND stick to it.*** See #2 above. Make sure your investments are doing what they should be with your goals in mind…whatever those goals may be.

4. ***Eliminate terrible debt.*** The big-box plastic is probably #1 for most. The only acceptable debts (as long as the interest rates are reasonable) are mortgages, car loans, home improvement loans, and college loans. Negotiate lower rates whenever possible - no need to pay more interest than you should.

5. ***Get a sufficient emergency fund in place NOW.*** This way, you won't resort to plastic when you have one of those "uh-oh" moments. Shoot for 3 mos. of income for starters…if you can get to 1 yr. of income than would be best.

6. ***Improve your health…***yes, this affects your $! Less money spent on medications/prescriptions, less doctor's visits (except your regular checkups), etc. Eating better (you can contact me about this - I know a thing or two in this area also) and regular exercise (we all have to start somewhere - even if it's just taking a walk after lunch and/or dinner) are truly your financial "friends". If you make healthy changes, you will spend less money for all types of insurances going forward & enjoy a better quality of life. We all want that, right?

7. ***Take care of the things you have.*** No sense in spending $ frequently on big-ticket items. Make them last for a while. Maintenance is key, especially when it comes to vehicles, boats, your home, properties, etc.

8. ***Be satisfied with what you have.*** No need to play that game called "Keeping up with the Joneses". Having the latest big-screen TV in every room in your house is not wise if you don't have enough saved for retirement or for little Suzie's college education. Prioritize the things that really matter - delay the gratification instead of having the "I need this yesterday" mentality that gets too many people into financial trouble.

9. ***Avoid doing dumb things.*** What I mean is that lots of people sue lots of people every day, so refrain from giving the sue-happy crowd any reason to come after you. There's a reason there are a lot of lawyers in the good ol' U.S. of A…..and, last (but not least)

10. …***Learn something new financially every day.*** Even if it seems like something minor, the more you educate yourself about financial matters, the better financial decisions you'll make. Hire a qualified financial professional who values educating you on a regular basis - this 10th step (if you hire the right advisor) can easily help you with the prior 9 steps!

Happy New Year everyone - let's make 2015 a great year!

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## How Much $ Do You Need?

**How do you make sure that you have enough money to reach these various goals?**

We would all like to have enough money to do the important things:  live life, retire comfortably, educate our children, and so on.  More importantly, how do you make sure that you have enough money to reach these various goals?  Careful planning is essential, but you need to start from the bottom and work your way up to the big goals.

If you have a steady job, the general rule of thumb is to have 3-6 mos. of living expenses in the bank in case of emergency.  If your job certainty is under question, 6-12 mos. of living expenses in the bank is best.  So calculate those monthly expenses, don't forget the one-off and quarterly expenses/bills, and you now know how much you need for your rainy day fund.

Next for many people would be a vacation fund.  This will probably vary depending on length of trip, destination, if you're single, married, have a small/large family, etc.  Consider putting away several thousand dollars over the course of a year, whether it be weekly, every 2 weeks, monthly, etc.  Create a dollar amount that you think would suffice and finalize a number that's a bit higher just in case of unforeseen expenses and set a date(s) when you need the money.  Now you know how much you need for your vacation fund.

Saving for retirement would be next on most people's lists.  This is a tough one to calculate the dollar amount for because there are so many factors, but it can be adjusted over time depending on circumstances.  A common rule of thumb is annual income needed in retirement is ~ 70-80% of your final annual salary when you finish working full-time.  You would need to make sure that this amount of money would be able to last you for 25-30+ years, since running out of money in retirement is not ideal.  Retirement needs can vary depending on pension plans, 401(k) savings, IRA savings, if part-time work in retirement is an option, if you want to leave money to heirs, escalating health care costs, increase in living expenses,  etc.  A combination of frequent and smart investing, taking the appropriate amount of financial risk, and having a qualified financial advisor to serve as your money "conscience" can help many people successfully stay on this difficult track.

Saving for college for a child or children is optional, but many feel as if they'd like to help put something towards the education needs of their children.  Depending on how much help you'd like to provide, figure out the cost of colleges now and realize that the costs have been growing on average 5-7%/yr. over time.  Once you know the dollar amount you need to fund, set a savings goal with a quality 529 plan and make regular contributions to fund that need in full.

If you'd like to leave money to your heirs/charities/foundations, figure out how much you'd like to leave as a gift and keep that money separate from all other goals.  This will be highly personal for those who wish to do so, so the dollar amount is subjective.  Setting the dollar goal is important and making sure you have this money in place before you pass away - along with the necessary legal documents - is imperative so that your wishes are honored.

There are other big money goals in life, such as saving money for home purchases (for those who wish to own a home), purchase of vehicles, nursing home/long-term care needs, health care situations, purchase/sale of a business/property, starting a new business, changing jobs, etc.  The situations above all require figuring out the variables required to calculate a specific dollar amount needed, a time frame for when the money is needed, and crafting the savings plan/vehicles to help make the goal a reality.  This is the blueprint for figuring out how much money you need, no matter what your goals are.

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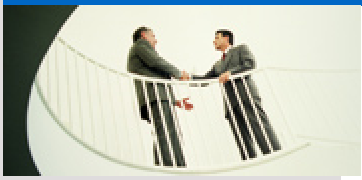

## Is Your Financial Advisor for "Real"?

I believe I should start off by educating those who are already using a financial "advisor" (using that term loosely here) and/or considering using a financial "advisor" for the first time. Do you know the main differences between those individuals known as stockbrokers, financial advisors, investment advisors, financial consultants, independent RIAs, etc.? I'm guessing many readers would say no - so here's the main questions to ask (a bit of knowledge goes a **LONG** way) to find a REAL financial advisor:

- Would you rather have your financial advisor be legally obligated to always have your best financial interests in mind, or just do what is considered to be least acceptable (aka "suitable") for your financial situation (definitions will follow)?
- Would you rather pay commissions to your financial "advisor" (and wonder if those calls to make portfolio changes are helping you more or are boosting your advisor's monthly production numbers), or pay a fee (%-based on the investments managed for you), a retainer, and/or an hourly fee so there is less potential conflicts of interest as to what your advisor recommends you do with your money?

**Would you rather have your financial advisor be legally obligated to always have your best financial interests in mind, or just do what is considered to be least acceptable?**

Those are the ONLY 2 questions you really need to ask your "advisor" - if the "advisor" is NOT a fiduciary (legally obligated to do what is in your best interests), you don't even need to ask the second question…find a financial advisor who is a fiduciary. The fiduciary term CAN apply to financial advisors, investment advisors, IARs, CFPs, etc., so be sure to ask if they are ALWAYS acting as a fiduciary for clients and can prove it in writing - these same exact financial titles may not mean that they ALWAYS operate in a fiduciary capacity.

Suitability is just a way of saying, "I could've sold you that annuity that only charged you 3.5% upfront and had better investment choices, but I decided to sell you this annuity that has not quite as many good investment choices as the other annuity and I get paid more…5% upfront instead" - sounds ethical, right? As long as the firm that the advisor works for deems that the purchase of this annuity is suitable for the client's financial situation, there is nothing to stop the advisor from doing it legally. Do you think that is RIGHT? Calm down - I didn't make the rules…I'm just explaining them (since I'm sure many of you who are reading this are wondering AT THIS VERY MOMENT if your "advisor" has done this to you?)!

Commissions can cloud the judgment of financial advisors, so it's best to eliminate those advisors who still are paid under this old methodology (even if it's only part of the way they get paid). If your "advisor" is paid via commissions for sales of financial products, it's time to fire this person and find a REAL financial advisor instead. I know that hiring a new advisor can be difficult but now you're armed with the 2 questions above - things just got a lot easier for you to narrow down the eligible field of qualified financial advisors (aka fiduciaries) to select as your partner for your ongoing financial situation.

Knowledge is power - now that you have this knowledge, hire a REAL financial professional and encourage others to do the same. Thank you - you can now help others to make smarter financial decisions also…and make the world a better place. Feels good, doesn't it? You're welcome!

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