MF Advisers
$ = mf ²

# THE FINANCIAL FORMULA

Giving You The Financial Information You Need

September 2017

It's back to school time, FF readers (is summer really over?)! Please enjoy this month's edition of The Financial Formula, and let us know if you have any questions...thanks!


**Martin A. Federici, Jr.**
MF Advisers, Inc.
CEO
marty@mfadvisers.com
570-760-6524
Fax: 570-675-7105
91 Franklin Street
Dallas, PA 18612
http://mfadvisers.com


## In This Issue

## Start Today! Three Ways to Boost Your Retirement Savings

**Given the uncertainty surrounding the Social Security system, maybe it's time to rethink your own saving habits.**

As Americans, we can take pride in the many things we do well. We work hard. We have excellent hospitals and universities, and we entertain the world with the movies we make. But there's one thing that we could all do better -- and that's saving for the future.

Of course, if you are already saving for your retirement through your employer-sponsored savings plan, each contribution you make brings you closer to your retirement goal. But are you saving as much as you can?

If you need a reason to get serious about saving more, consider this: Today the average Social Security retirement benefit was just $1,329 a month at the end of 2014.[1] Given the uncertainty surrounding the Social Security system, maybe it's time to rethink your own saving habits.

Here are three quick ideas for giving your retirement plan a boost.

1. Apply a raise or bonus to retirement savings. Consider boosting your contribution rate with each increase in pay you receive. Making voluntary increases a habit year in and year out could bring you that much closer to the maximum contribution allowed by your employer (in most cases that is $18,000 in 2016 plus an additional $6,000 in catch-up contributions that are allowed for workers age 50 and older).
2. Cut back household expenses. You may be surprised by how quickly small savings can add up. Things as simple as brown-bagging lunch, switching from brand name to store brand items, and doing away with premium cable channels can make a noticeable difference in your monthly cash flow. Setting up a monthly budget of income and expenses may help you find ways to cut back more.
3. Forgo a tax refund. In 2015, the IRS estimated the average tax refund check to be a little over $3,000.[2] If you typically get a tax refund, consider revising your W-4 form to reduce your withholding. Your paycheck will grow, which means you may be able to increase the amount you save in your employer's retirement plan.

You can probably think of other ways to save, such as paying off credit card debt. It really doesn't matter how you save, the important thing is to build your retirement account in ways that work for you.

[1]*Social Security Administration, "Fast Facts & Figures About Social Security, 2015."*

[2]*Internal Revenue Service, "Tax Refunds Reach Almost $125 Billion Mark; IRS.gov Available for Tax Help," IR-2015-34, Feb. 26, 2015.*

## Does Your Portfolio Reflect Your Risk Tolerance?

When it comes to investing, many people associate risk with losing money. But investing entails different types of risk. Understanding each type -- and the potential return associated with your retirement portfolio -- can help you determine whether your investments are appropriate for your situation.

### Examining Risk and Return

Stocks historically have exhibited the highest level of market risk -- or the potential that an investment may lose money in the short term. Over long periods of time, however, stocks have outperformed both bonds and cash investments.[1] This risk/return tradeoff may influence how you allocate your investments. For instance, consider weighting assets that you intend to keep invested for 10 years or more toward stock investments.

Bonds carry their own risks -- credit risk, or the possibility that a bond issuer could default on interest and principal payments; and interest rate risk -- the chance that rising interest rates could cause a bond's price to fall. Ascending interest rates historically have influenced the prices of bonds more directly than the prices of stocks.[1] When short-term rates are on the rise, investors may sell older bonds that pay a lower rate of interest -- causing their prices to fall -- in favor of newly issued bonds that pay higher interest rates. On the plus side, bonds historically have exhibited less short-term volatility that stocks, although past performance is no guarantee of future results.

It's also important to look at cash investments, such as 3-month Treasury bills, from a vantage point of risk and return.[1] Although Treasury bills typically experience a low level of volatility, they may be subject to inflation risk -- or the possibility that their returns may not keep pace with the rising cost of goods and services. For this reason, you may want to use cash investments for short-term situations when you expect to access your money within 12 months or less.

### Putting Risk in Perspective

Because all investments entail risk, you may want to review your mix of stocks, bonds, and cash investments with an eye toward creating a risk/return profile that is appropriate for your situation. Owning different types of assets may increase your chances of experiencing the benefits associated with each, while mitigating the corresponding risk. Your retirement portfolio won't be risk free, but you will have the confidence of knowing that you've done what you can to manage a potential downside.

**Because all investments entail risk, you may want to review your mix of stocks, bonds, and cash investments with an eye toward creating a risk/return profile that is appropriate for your situation.**

This article offers only an outline; it is not a definitive guide to all possible consequences and implications of any specific investment strategy. For this reason, be sure to seek advice from knowledgeable financial professionals.

*[1]Source: Wealth Management Systems Inc. For the 30-year period ended December 31, 2013. Stocks are represented by the Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Investing in stocks involves risks, including loss of principal. Bonds are represented by the Barclays U.S. Aggregate Bond index. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Cash is represented by the Barclays 3-Month Treasury Bills index. It is not possible to invest directly in an index. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value. Past performance is not a guarantee of future performance.*

## Investing for Retirement: A Marathon, Not a Sprint

Let's face it: You can't fund a 20-year retirement in just five years. Investing for retirement takes time, and success requires that you start early and invest appropriately at each stage of your life.

**Successful investors often begin putting money into an investment account as soon as they start working. If you began investing in your 20s, you may be well on your way to a comfortable retirement.**

### The Early Bird

Successful investors often begin putting money into an investment account as soon as they start working. If you began investing in your 20s, you may be well on your way to a comfortable retirement. By starting to save at the beginning of your career, you have many years to reap the potential benefits of compounding -- the continuing reinvestment of investment earnings. If you're eligible to contribute to a tax-qualified retirement plan at work, you also have the potential advantage of tax-deferred growth of your account assets. And, if your employer matches employee contributions, you'll enjoy the added benefit of "free" money.

When you're just starting out in the work force, you have an important advantage: time. Even though some of your savings may be earmarked for shorter-term goals, such as a down payment on a house or a child's education, your long time horizon for retirement means you may be able to take more risk with your investments. During these early years, you may want to allocate more of your portfolio to investments that have the potential for growth over the long term, such as stocks and stock mutual funds.[1]

### Time Is on Your Side

By the time you reach your 30s and 40s, you may have been saving for retirement for several years through your employer's retirement plan, your own individual retirement account, other investments, or a combination of the above. The middle years, when you're generally well-established in your career, are critical to the growth of your retirement assets. Consider contributing the maximum amount you can afford -- or at least as much as your employer will match -- to your account. Now may be the perfect time to increase your contributions.

Maximum growth of your assets should be your goal during the middle years. Since you probably still have quite a few years before you retire, you may want to continue to keep a portion of your portfolio invested in securities, such as stocks, with the potential for higher returns. Historically, over the long term, stocks have always recovered from any decline in value and generally offer the best inflation protection of any investment.[2] However, only you can determine how much investment risk you're comfortable with.

### The Home Stretch

By your 50s and 60s, you may have considerable assets in your retirement account. As you get nearer to retirement, you may be concerned with protecting your assets from loss. If you've allocated a sizeable portion of your portfolio to riskier investments such as stocks, you may want to preserve your gains by moving some of your money into potentially less volatile investment types. Your tolerance for risk will help you determine the percentage of your account to allocate to lower risk investments, such as bonds and money market funds.[3]

Stock market fluctuations are not the only risk to your retirement funds. Even modest inflation can significantly reduce your nest egg's buying power in the future. Your savings may have to fund a retirement that lasts for 15, 20, or 30 years. For this reason, during your remaining working years -- and after retirement -- you may want to keep at least a portion of your portfolio invested in stocks, which historically have outpaced inflation.

Your financial professional can help you design an appropriate investment strategy for each stage of your life.

[1]*Investing in stocks involves risks, including loss of principal. Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.*

[2]*Past performance is no guarantee of future performance.*

[3]*An investment in a money market fund is not insured nor guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.*


**The rule went into partial effect on June 9 with full implementation currently scheduled for January 1, 2018 (although the DOL recently filed a request to delay full implementation until July 1, 2019).**

# The DOL's Fiduciary Rule Takes Effect -- at Least for Now

For those following the fate of the Department of Labor's (DOL's) fiduciary rule, the road has been a long and winding one. But in late May 2017, the newly-appointed U.S. Labor Secretary, Alexander Acosta, announced that the DOL would honor the June 9 effective date for the rule, which expands the scope of what constitutes investment advice and defines the obligations of financial professionals who provide such advice to retirement plan participants, plan sponsors, and/or IRA owners.[1]

In an op-ed article published in *The Wall Street Journal* on May 22, Acosta wrote, "We… have found no principled legal basis to change the June 9 date while we seek public input."[2] Thus, the rule went into "partial" effect on June 9 with full implementation currently scheduled for January 1, 2018 (although the DOL recently filed a request to delay full implementation until July 1, 2019).

## The Back Story

The so-called fiduciary rule was initially proposed under the Obama administration in 2010, but at that time it faced stiff opposition from the financial services industry. A revamped version of the proposed rule was issued in April 2015, and a year later the "final" rule -- which was revised to reflect input from consumer advocates, industry stakeholders, and others, was presented by the DOL.

The new regulations were expected to become applicable in April of 2017. On February 3, 2017, President Trump issued a memorandum directing that the DOL's rule be reviewed to determine whether it may "adversely affect" retirement investors' ability to gain access to financial advice, and if it does, to move forward with "rescinding or revising" the rule. In response, on March 2 the DOL announced that it was seeking a 60-day delay in the applicability of the new rule, from April 10, 2017 to June 9, 2017, which brings the timeline full circle.[3]

## What's at Stake?

Supporters of the rule view it as a necessary and basic consumer protection that includes a number of measures aimed at safeguarding the interests of investors in and sponsors of retirement accounts.

According to Labor Secretary Acosta, the rule's critics believe "it would limit choice of investment advice, limit freedom of contract, and enforce these limits through new legal remedies that would likely be a boon to trial attorneys at the expense of investors." He went on to assert that, "Although courts have upheld this rule as consistent with Congress's delegated authority, the Fiduciary Rule as written may not align with President Trump's deregulatory goals. This administration presumes that Americans can be trusted to decide for themselves what is best for them."[2]

For now, at least, the fiduciary rule stands while the DOL continues to review it for possible changes or elimination.

[1] *United States Department of Labor, " Protecting Retirement Savings FAQs."*

[2] *The Wall Street Journal*, "Deregulators Must Follow the Law, So Regulators Will Too," May 22, 2017.

[3] U.S. Department of Labor, Employee Benefits Security Administration, Field Assistance Bulletin No. 2017-02, May 22, 2017.