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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

October 2015

I hope that you enjoy this month's edition of The Financial Formula! Please call or email me if you have any questions - Happy Halloween everyone!

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In This Issue

Finding Your Risk Comfort Zone

To determine your risk-tolerance level, add up your score. Give yourself one point for each "1," two for each "2," three for each "3," and four for each "4."

In the world of investing, risk is nearly unavoidable. Some investments are riskier than others, but while they may be more risky, they may also have the potential for higher reward. Likewise, some investors are willing to take on more risk than others to achieve their financial goals. How comfortable are you with risk? The following quiz may help you determine your risk tolerance.

How many years until you reach retirement or other financial goals?

1. Less than five years.
2. 5 to 10 years.
3. 11 to 20 years.
4. More than 20 years.

What would you do if the stock market suffered a one-day drop of 10% or more?

1. Sell all of your stocks.[1]
2. Adjust your portfolio mix toward "safer" investments, such as bonds or money markets.[2]
3. Become very concerned and monitor the market on a daily basis.
4. Remain calm because you are investing for the long term.

If your investments suffered an extended period of low or negative returns, you would:

1. Sell off all your investments.
2. Not sell, but stop investing.
3. Invest less than you normally would.
4. Continue to invest as much as, or more than, you have been.

What are you looking for when selecting investments?

1. Safe investments that will preserve capital.
2. Investments with the potential for consistent, moderate growth.
3. Aggressive investments with excellent growth potential.
4. Bargain-priced investments that appear to have excellent growth potential.

Are you likely to consider foreign investments?

1. Never. There are too many good opportunities in the United States.
2. Not likely.
3. I might consider it.
4. Yes, definitely.

To determine your risk-tolerance level, add up your score. Give yourself one point for each "1," two for each "2," three for each "3," and four for each "4." A score of 5 to 7 means you may be a conservative investor who is most comfortable with a low-risk mix of investments; a score of 8 to 12 means you may be a cautious investor, but are not completely averse to risk; a score of 13 to 16 means you may be a moderate investor who might be willing to take on some aggressive investments to reach your goals; and a score of 17 to 20 may indicate that you are comfortable with risk as a means of reaching your goals.

[1] *Investing in stocks involves risks, including loss of principal.*

[2] *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. An investment in a money market fund is not insured or guaranteed*

by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

Federal law requires the three major nationwide consumer reporting companies -- Equifax, Experian, and TransUnion -- to each provide you with a free copy of your credit report, at your request, once every 12 months.

Your Credit Report: Can You Afford to Ignore It?

When was the last time you obtained a copy of your credit report? If your answer is "never" you are not alone. A recent survey found that one in four Americans have never checked their credit report. The simple reason? They don't think it is important.[1]

Credit reports ARE important to every consumer. They typically are a major factor in determining if you will be approved for a loan, be able to rent an apartment, or even get hired at a new job. They qualify your creditworthiness and are one of the first places to detect whether you have become the victim of identity fraud.

If all of those reasons are not enough to convince you that monitoring your credit report is a good idea, the no-brainer fact you can't deny is: It's free and has been for more than a decade!

The Fair Credit Reporting Act (FCRA) requires the three major nationwide consumer reporting companies -- Equifax, Experian, and TransUnion -- to each provide you with a free copy of your credit report, at your request, once every 12 months. These three companies sponsor an official website -- annualcreditreport.com-- that allows you to request credit information from all three agencies in one place.

Once you receive your report(s), be sure to review all of the following for accuracy:

- Your name (including any variations or nicknames)
- Your Social Security number
- Date of birth
- Current and previous addresses
- Employment data
- Credit accounts and history
- Public records (e.g., liens, bankruptcies, etc.)

If you find errors in the report, you'll need to contact the credit bureau and provide documentation to correct the error.

Confusion Compounded

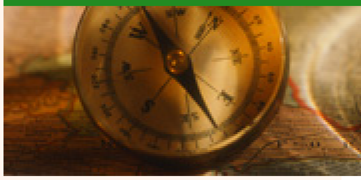
Even among those who have checked their credit reports fairly recently, confusion persists about what is included in the report and why it matters to them. For example, a survey of more than 4,300 adults conducted in early 2015 by Credit.com found that:[1]

- 27% of those surveyed were surprised by some of the information included in the report.
- One in five found (21%) incorrect or outdated information.
- One in 10 (10%) found a collection account they didn't know existed.
- 15% were unsure of the relevance of each section of the report.

Further, the study showed that many consumers only saw their credit reports in conjunction with an application for housing or a loan and were left with little or no time to respond to any problems or mistakes that may have surfaced.

Don't be blindsided by errors in your credit report that could cost you a job or disqualify you from a loan application. Credit experts generally encourage individuals to check their credit report at least annually to ensure that the information it contains is accurate and up-to-date.

[1]*Credit.com, "Are Credit Reports Important? Many Americans Say No," March 3, 2015.*



How Taxes and Inflation May Affect Your Retirement Portfolio

Benjamin Franklin famously stated that the only two certainties in life are death and taxes. But there's at least one more that could probably be added to the list: inflation.

Inflation is the sustained, ongoing increase in the general level of prices for goods and services. As prices rise over time, the purchasing power of every dollar goes down. Due to inflation, one dollar in ten years will likely purchase less than the same dollar would today.

It is critical to understand the effects of inflation on a retirement portfolio, because a retirement account in the future probably won't have the same purchasing power that it has today.

How Inflation Is Measured

The rate of inflation in the United States is measured by the Consumer Price Index (CPI), which calculates monthly changes in the prices paid for a representative basket of goods and services. Over the past three decades, inflation in the United States has risen at an annualized rate of 2.69%.[1] This has shrunk the purchasing power of $1 in 1985 to just $0.45 today.[2]

It is critical to understand the effects of inflation on a retirement portfolio, because a retirement account in the future probably won't have the same purchasing power that it has today. For example, a $1 million portfolio today would need to grow to $1.7 million in 20 years to have the same purchasing power.[2]

But inflation is not the only potential hazard to the long-term purchasing power of your retirement nest egg.

The Tax Man Cometh

Let's go back to Mr. Franklin, because taxes may also impact how much money you actually get to put in your pocket when you begin taking distributions from your retirement account in the future.

Many retirement plans allow participants to save money on a tax-deferred basis, but this isn't the same thing as saving on a tax-free basis. When you contribute money to a traditional IRA or 401(k), for example, your contributions are excluded from your current taxable income. In other words, you don't have to pay tax on the money today, but instead are deferring this tax until you begin taking distributions from the account typically during retirement.

In comparison, contributions to a Roth IRA or 401(k) are included in your current taxable income. And since you are paying taxes on the money now, you don't have to pay taxes again when you withdraw the funds during retirement.[3]

Pay Me Now, or Pay Me Later

One of the decisions you must make as part of your retirement strategy is whether to invest on a tax-deferred basis, and pay taxes when you withdraw the money, or invest tax free and pay the taxes now?

No one has a crystal ball to predict whether tax rates will be higher or lower in the future. That is why it is important to work with a financial planning expert who, using sophisticated retirement planning tools and software -- and taking your individual circumstances, risk tolerance, and goals into consideration -- can help you work through various inflation and tax scenarios to determine the most appropriate strategies for you.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

[1]*United States Department of Labor -- Bureau of Labor Statistics. For the 30-year period ended June 30, 2015.*

[2]*Wealth Management Systems Inc. based on price inflation for the 30-year period ended June 30, 2015.*

[3]*Withdrawals from qualified plans taken before age 59½ are generally subject to a 10% additional federal tax -- on top of any regular income taxes owed -- although there are a few exceptions to this rule.*