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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

July 2014

Happy summer all of our Financial Formula readers! Please read this month's articles & let me know if you have any questions - thanks so much!

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

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The good news is that as a participant in your employer-sponsored savings plan you are already saving for retirement. But are you putting away as much as you can?

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Just as your everyday personality affects the way you act, your investment personality influences your investment choices.

What Rising Interest Rates May Mean to You

With higher rates on the horizon, you might be wondering how your investment portfolio could be affected.

Could You Be Saving More?

The amount you contribute to your plan should depend how much you are allowed to contribute, how much you will need in retirement, and how much you can afford to save today.

We live in exciting times. While the pace of medical and technological breakthroughs bodes well for longevity and continued health for Americans in their later years, their financial future is fraught with uncertainty. Research shows that over the past two decades the age at which workers expect to retire has been slowly rising. In 1991, just 11% of workers expected to retire after age 65, while this year 33% of workers report that they expect to retire after age 65, and 10% don't plan to retire at all.[1]

How confident are you that you are securing a financially comfortable retirement? The good news is that as a participant in your employer-sponsored savings plan you are already saving for retirement. But are you putting away as much as you can?

The amount you contribute to your plan should depend on three key factors: how much you are allowed to contribute, how much you will need in retirement, and how much you can afford to deduct from your paycheck today.

How Much Are You Allowed to Contribute?

Different plans may impose different contribution limits and matching contributions, but all must adhere to certain rules imposed by the IRS. For 2014, you are allowed to contribute up to $17,500 to a qualified plan on a tax-deferred basis. If you are age 50 or older, you can contribute an additional $5,500 in "catch-up" contributions. The total that can be contributed to a plan in 2014 is $52,000 or 100% of your compensation, whichever is less. This includes your before- and after-tax contributions, as well as any employer match.

How Much Will You Need in Retirement?

To estimate how much you will need in retirement, you will want to start by considering your retirement lifestyle. Do you plan to travel? Will you want to work part time? These are important questions that will help determine just how much you'll need to save. You will also need to factor in when you plan to retire and how long you expect to live in retirement. Lastly, you will want to estimate your other sources of retirement income such as Social Security and pensions. This will help you determine just how much you'll need to rely on your investments to cover living expenses in retirement.

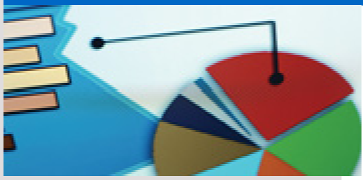
How Much Can You Afford to Deduct From Your Paycheck Today?

How much you can afford to contribute each pay period will depend largely on what your other expenses and financial commitments are -- and how you prioritize them. Keep in mind that contributions are tax-deferred, so the bottom-line impact on your take-home pay won't be as much as you might think.[2] Over time, with the help of tax deferral, you'll find that your contributions today will help you realize tomorrow's retirement goals.

And remember to factor in your employer's matching contributions, if available in your plan. The employer match, if offered, usually represents a percentage of your pre-tax contribution. For instance, if you contribute 6% of your salary to your plan, your employer might match the first 3% at 50 cents on the dollar. Note that not all employers offer matching contributions and such contributions may be subject to vesting periods or other terms. But if your employer offers matching funds, be sure to contribute at least the amount required to take full advantage of them.

[1]*Employee Benefit Research Institute, 2014 Retirement Confidence Survey.*

[2]Withdrawals will be taxed at then-current rates. Early withdrawals prior to age 59½ may be subject to a 10% penalty tax.



What's Your Investing Personality Type?

The balanced investor will often accept a higher level of risk in exchange for the opportunity to achieve greater investment returns.

Just as your everyday personality affects the way you act, your investment personality influences your investment choices. There are as many investment personalities as there are investors. See if you recognize yourself in any of these common investment personality types.

"Safe" and Sound -- Conservative investors tend to favor fixed-income, low-risk investments because the chances of losing money are generally lower than with other types of investments.[1] This strategy makes sense if you need to tap your investment dollars in the next few years, but over the longer term these "safe" investments may offer less potential for growth -- and growth is what you need if you are investing for a long-term goal that is still 20, 10, or even 5 years away. While the conservative personality may seem "safe" today, it could keep you from reaching your long-term goals down the road, and may actually be a very risky approach to take.

The Steady Hand -- The balanced investor will often accept a higher level of risk in exchange for the opportunity to achieve greater investment returns. But to counter potentially higher levels of risk, the Steady Hand often makes regular, periodic purchases into investments that suit their goals and investment time horizon, then stick to their plans for the long term -- regardless of the market's short-term ups and downs.

The Market Timer -- Some investors buy and sell investments over short periods of time, attempting to anticipate when they will make a profit -- a practice also known as market timing. While this approach may occasionally prove fruitful in the short term, market timing rarely, if ever, works over long periods. The temptation can be great to "follow the herd," and sell investments when prices fall or buy when prices rise. But this approach typically results in the investor locking in losses.

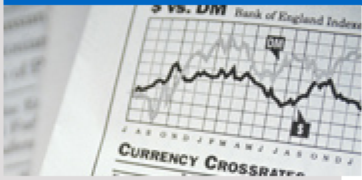
Market timers also run the risk of missing the market's best-performing days. For example, using history as a guide, if you missed just the 5 top-performing days of the 20 years ended December 31, 2013, it would have cost you more than $19,628 based on an original investment of $10,000 in the S&P 500. Missing the top 20 days would have reduced your average annual return from 9.22% to 3.09%.[2]

You never know when the market is going to shoot up, so staying invested and avoiding the temptation to time the market can really make a difference.

So which type of investor are you? Chances are, you see parts of yourself in each of the three personalities described here, depending on your mood or financial situation at any given time. But when it comes to your long-term investment goals, adopting a balanced personality should serve you best.

[1]*Past performance is not a guarantee of future results.*

[2]*Wealth Management Systems Inc. This example is based on a hypothetical $10,000 investment in domestic stocks, as 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. Performance is for the 20-year period ended December 31, 2013. It is not possible to invest directly in any index. Past performance is not a guarantee of future results. Investing in stocks involves risks, including loss of principal.*



What Rising Interest Rates May Mean to You

Rising interest rates can provide investors the chance to reinvest in bonds offering higher yields.

Speculation is ongoing about when the Federal Reserve will begin hiking short-term interest rates. While the central bank has kept short-term rates near zero since December 2008, at the most recent policy meeting, Fed Chairwoman Janet Yellen indicated that with continued signs of economic improvement, higher rates could come in 2015. With higher rates on the horizon, you might be wondering how your investment portfolio could be affected.

Individual Bonds[1]

Generally speaking, rising interest rates lower the value of bonds that investors currently hold. This is because investors can now buy similar bonds with the same maturity by paying a higher rate, which lowers the value of existing bonds. But for investors who hold their bonds until maturity, rising rates are not necessarily cause for worry. Price fluctuations do not affect a bond's coupon payment and should not affect the ability to pay back principal at maturity. Some investors may choose short-term bonds to limit their exposure to price fluctuations.

Rising interest rates can also provide investors the chance to reinvest in bonds offering higher yields. If you seek a balance between low price fluctuations and higher yields, consider choosing a mix of short-, intermediate-, and long-term bonds.

Bond Mutual Funds[2]

A bond fund's value also fluctuates as the prices of its individual holdings change. And because, unlike individual bonds, bond funds do not have a specific maturity date, principal risk cannot be minimized by holding to maturity. In other words, if interest rates rise, there is a chance that the bond fund's total return will be lower. Yet because they continuously buy and sell holdings, bond funds have the potential to offer instant diversification.[3]

Stocks and Stock Mutual Funds[4,2]

Prices of individual stocks and stock funds may decline as interest rates rise, as higher rates make bond investments more appealing. Higher interest rates can also negatively affect corporate earnings in some industries, such as utilities and financial services, potentially causing those stocks to decline. But some stocks may be less sensitive to interest rates because of other factors, including new technologies, currency exchange rates, and corporate management changes.

Since stocks and bonds generally do not tend to move in lockstep, the best way to insulate your investments against interest rate risk may be to diversify between both types of investments. Diversifying may also help to stabilize your portfolio during times of market volatility.[3]

[1]*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.*

[2]*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.*

[3]There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

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