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Financial Solutions for the Life You Are Living and the One You Want to Live

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SUMMER 2019

Tariff Wars in Perspective

For good reason, tariffs are not helpful to any economy. The country that creates tariffs creates an unnecessary tax bill on its citizens. Any way you look at it; it makes an inefficient system even more inefficient. Tariffs are one of those rules/laws that have far reaching unintended negative consequences.

The self-inflicted tax makes everything cost more, for starters. This can but doesn't always change consumer behavior. You can decide to pay more for a product or service, buy a different product or service (from a different origin), or stop consuming that product or service altogether. These changes interrupt everyone along supply chain from the manufacturer to the consumer and everyone in between. From a business standpoint, I don't know of a single modern day economist that believes raising tariffs are a smart tool to use for any country, much less the United States. Being in the tenth year of one of the longest economic cycles on record (if not the longest); this is a sure fire way to put a halt to this expansion and make the economy begin to slow. It is never apparent until the economic cycle changes. Afterward, it becomes obvious to everyone.

Another sign that this is bad news for the economy is the fact that we went from worrying about inflation with rising rates to a possible rate cut in just a few short weeks. This reduction in rates has again furthered this economic expansion. Mortgage rates are back to rock bottom. Housing has not let up (buying frenzy except CA) and neither has the labor

Continued on page 2

Reviewing Legal Documents

Whether this is your first, second, or subsequent marriage, take a look at major legal documents to see if changes are needed. Even if you've been married for a while, you should review these documents:

✔ **Estate-planning documents** — If this is your first marriage, you may not even have estate-planning documents. In that case, at least prepare a will and durable power of attorney, so that state laws won't dictate how your estate is distributed. For those entering a subsequent marriage or with children, thoroughly review your estate-planning documents.

✔ **Asset ownership** — Review how assets are titled to ensure they are consistent with your estate-planning goals.

✔ **Assets with beneficiaries** — These assets would include life insurance policies, retirement plans, and individual retirement accounts (IRAs). These designations will take precedence over other documents.

✔ **Business arrangements** — Review any agreements dealing with what happens if you die or sell your interest. The agreement may need to be changed to allow your spouse to continue ownership after your death or for him/her to become involved in the business. ❍❍❍

Tariff Wars

Continued from page 1

market (record low unemployment).

While this may seem like an extremely negative outlook because of the most recent hike in tariffs, we need to take a step back and put things in perspective. Last year (in January of 2018), I traveled to Bangkok. Would anyone like to guess what kind of tariffs are in place on luxury cars in Thailand? There is an 80% basic tariff tax when a car is imported. That is not enough for the Thai government. They also add in excise tax, VAT (Value Added Tax), and a local tax. This number comes to around 328%. (***www.bangkokpost.com*** dated 30 Jan 2018). Cars are still being purchased with these hyper tariffs in place! The traffic in Bangkok is horrific. The 'high tariff tax system' may also be in place, (kind of like Singapore) to artificially reduce the demand for automobiles being sold.

The point is, going back many years, countries increase and reduce tariffs for various reasons. Economies still expand, slow, recess, and grow again. However, it appears to me the countries that reduce barriers and taxes seem to have a more stable and efficient economies. Free and fair trade sounds like good economic advice for the world, but the world is imperfect. Governments, leaders, and peoples with varying ideologies constantly change behaviors which make for a very workable, yet inefficient system.

The moral of the story: don't fret about the year 2018/2019 tariffs. I am reasonably confident that these will be short lived and we will be turning the page to the next chapter of news. It wasn't too long ago many thought we were headed to war with North Korea. Although that danger is still present, that topic has faded. In the financial business, we talk about much of the financial news as 'headline risk'. Yes, this is real news, but when we stop and think about it, what has changed? The last time I looked, parents are still saving for college and sending their kids off to schools, retirees are still going on cruises, grocery stores are packed, homes are being gobbled up like candy, and companies can't find enough people to work. There is no question, we will eventually slow down; it may be gradual or even a steep decline. But, always remember, it too shall pass.

Sincerely,

Andrew D. Wade, CFP®
President

Managing Correlations

The correlation, or relationship, between two different investments can be difficult to determine without historical data and statistical analytical tools. However, there are some basic rules of thumb that can help explain how the different forces interact and how investors can profit from them.

Most investments have a high correlation-to-market performance. In other words, when the overall market is rising, they're rising too, so there is less variability between their performance and the performance of the market as a whole.

Other investment classes have a low correlation-to-market performance. Investments in this category typically include currencies, commodities, and most hedge funds. While these typically carry more risk than investments with a high correlation, they can be good alternatives during periods of uncertainty or bear markets (when the overall market is faring poorly).

Then there are investments with a negative correlation to the market — they rise when the market falls. These are some of the most challenging investments to manage. While they can serve to diversify a portfolio and lower risk, by themselves, they carry the highest risk since the investor is betting against the market. Investments in this category include shorted indexes and stock of companies dealing with inferior goods.

While each of these investment classes carries its own risk, combined they can lower your portfolio's overall risk. When investors combine assets whose returns show low (or even negative) correlation with each other, they can minimize risk while maximizing return (because the investments are not as likely to fall at the same time). In other words, it is possible to be a prudent investor even if your portfolio includes riskier assets — as long as those riskier-yet-higher-yielding investments are balanced with others in a well-diversified portfolio.

Being diversified across different industries or international markets is not protection enough for days when almost every stock — domestic or international — gets hit. During these times, stock investors do not have anywhere to turn unless they've already hedged their stock portfolios with other asset classes.

Please call if you are interested in investigating the best asset classes for your goals. ❍❍❍

Retirement Planning Decade by Decade

Retirement planning is a lifelong process. Below are some of the key retirement-planning actions you need to take from your 20s through your 60s.

Your 20s

Start saving. The sooner you can start saving for retirement, the less you'll have to save overall. If you start saving $5,000 per year at age 25, you'll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving and you'll have about $395,000 — more than $300,000 less. Also, since you're still decades away from your retirement date, don't be afraid to take some risk with your investments. You'll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you're young: Start budgeting, avoid debt, and save for other goals like buying a house. Even if you're not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

Your 30s

As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider raising retirement contributions by the amount of your annual raise, so that you don't fall behind on saving. Reassess your savings rate and consider meeting with a financial advisor to make sure you're saving as much as you can — and investing it well.

Your 40s

You're at the halfway point to retirement. If you've been saving for the past 10 or 20 years, you should have a nice nest egg by now. If you're still not serious about saving, now is the time to do so. You'll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you're an accomplished saver or just getting started, you may also consider meeting with a financial advisor to help you make sure you're saving enough to meet your goals and investing in the best way possible.

A special note: People in their late 40s and early 50s are often looking at steep college tuition bills for their children. Don't make the mistake of sacrificing your retirement goals to pay for your children's college educations. Stay focused and on track, so your children don't have to jeopardize their financial future to support you as you get older.

Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k)s and IRAs. You can save an additional $6,000 a year in your 401(k) plan and $1,000 more a year in your IRA in 2019. That's great news if you're already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what's going to happen when you retire — when exactly you're going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It's also the time to take stock of your overall financial situation. You'll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free in retirement by paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven't already, you'll want to dial down the risk in your portfolio, so you don't take a large loss on the eve of your retirement. You'll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you're falling short, it's better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you'll get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing that plan. Not sure how to get started? Please call so we can discuss this in more detail. ❍❍❍

4 Steps to Create a Budget

A budget shows you where your money is going every month to ensure you are bringing in more than you are spending and saving enough to meet your goals. Here are four steps to creating a budget:

1. Track where your money goes — You can track your expenses using your bank statements, receipts, or logging it into a journal or smartphone app. Add up the total for each month and then average it out. That will give you a good base to start building a budget you can stick to.

2. Put your budget on paper — Once you've tracked your expenses, use a spreadsheet or online/mobile application to put your budget on paper. In the expenses column, include everything you spend money on. In another column, input your income. If you have a salary, you can input how much you receive each paycheck; but if your income varies, you can use the average of the last three months. Subtract expenses from your income to see how much money you have left every month. If you have a negative number, you'll need to make some changes to your budget. If you have a positive number, that can be the amount of money saved each month.

3. Look for ways to increase your savings — With essential expenses of fixed amounts, such as your mortgage, taxes, and insurance, you may be able to refinance your mortgage, find strategies to help reduce taxes, or comparison shop insurance to reduce premiums. Essential expenses that vary in amount, such as food, medical care, and utilities, can usually be reduced by altering spending or living habits. For instance, you can actively shop for food with coupons, exercise to get in better health, or put energy-saving lightbulbs through your house. Discretionary expenses, such as entertainment, dining out, clothing, travel, and charitable contributions typically offer the most potential for spending reductions.

4. Reevaluate — It is critical to reevaluate your budget after the first few months to ensure it fits your needs and goals. If you find you are continuously spending more money than budgeted for necessities, adjust your budget. Once you get past the first few months with a new budget, reevaluate every six months or as needed.
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Loan Carefully

Responding to a request for a loan from family members or friends can be difficult. Consider these points:

✔ **Make sure the loan won't damage your relationship.** Loaning money can put significant stress on relationships. If they can't repay the loan, misunderstandings and resentment can occur on both sides.

✔ **Put the arrangement in writing.** You may even want to have a lawyer draw up a formal agreement for significant amounts.

✔ **Exercise caution before cosigning a loan.** When you cosign a loan, you sign a legal document accepting responsibility for the entire debt. If the primary borrower falls behind in payments, the creditor can come to you immediately looking for payment.

✔ **Ask for collateral.** Don't be afraid to ask for a lien on a house or car if you are loaning a significant amount.

✔ **Don't keep the loan a secret.** Inform other close family members of the loan and repayment terms, so they don't feel you are giving preferential treatment.
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"Associate yourself with people of good quality, for it is better to be alone than in bad company"

~ Booker T. Washington