Nebel Financial

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



financial $UCCESS

**WINTER 2021**

# Happy New Year 2021!

In our 2019 December newsletter closing out last year, it reiterated that health and decision making are the best characteristics for financial health. This year, both of those could not have been more important. Health is literally the most important part of a financial plan. Throughout the year, we heard of clients and family members of clients getting the virus. Some were younger, some were older, and all were in varying degrees of health. We are deeply sorry to hear of lives being lost. Whether the cause was COVID or not, it still made for a difficult year and grieving process as visitation(s) and even funerals have been postponed. For those recovering from the virus, we wish you a speedy and full recovery.

In years that can take an emotional toll, it is still probably the best decision to let your portfolio go down and bounce back on its own. It is human nature to want to avoid losses and only find the upsides to the market. This is not the way investing works and our experience shows us to first leave the account as is and if possible, add new funds during the dips. These lower values are temporary and over time, the portfolio will grow back. It just takes a little and in some years, a lot of patience!

After a year like this, it is hard to get too excited about a record year in the markets. I cannot recall a time when Wall Street was more dynamic than in year 2020. These record numbers come as the economic turmoil earlier this year has begun to recover. The unemployment claims exploded in March and April. They have slowly improved, and the unemployment rate has ticked lower. The prescriptions for the 2020 economic

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## Set Your Own Debt Limits

Credit can be a valuable tool that allows you to purchase major items and pay for them over time. But the ready availability of credit also makes it easy to incur more debt than you can comfortably repay. Rather than allowing lenders to set credit limits for you, evaluate your financial situation and determine your own limits.

To find out where you stand with consumer debt, which includes all debt except your mortgage, make a list of your debts and monthly payments. Then calculate your debt ratio by dividing your monthly debt payments by your monthly net income. The general guideline is that your debt ratio should not exceed 10% to 15% of your net income, with 20% usually considered the absolute maximum. However, you should consider your own circumstances and decide how much debt you are comfortable with.

Setting your own debt limit and carefully evaluating whether you should purchase an item on credit should help you keep your debt under control. ❍❍❍

## Happy New Year

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downturn can largely be attributed to massive stimulus by Congress changing or and by the extremely low interest rates concocted by the FED. The rates continue to encourage spending in almost all sectors. Again, being a mainly service and consumer economy, life does go on, as does the economy.

I do not like to speculate on the short term, but it does appear we have enough of a tailwind to continue this current economic recovery. Hopefully, this recovery will coincide with the world population being vaccinated against the COVID virus.

We hope you and your family have a safe 2021!

Sincerely,

*Andrew D. Wade, CFP®*
*President*

# Financial Rules of Thumb

Financial rules of thumb are designed to provide quick guidelines for your finances. However, you shouldn't blindly follow them without giving thought to your personal circumstances. Some of the more common rules of thumb include:

**Save 10% of your gross income.** While this will give you a good start, it's typically the minimum, not the maximum, you should be saving. Analyze how much you'll need for your financial goals, and then work backwards to calculate how much you should be saving.

**Plan on spending 80% of your preretirement income during retirement.** This may be true if you don't plan to be very active during retirement, but more and more people expect retirement to include extensive travel and expensive hobbies. On the other hand, if you've paid off your mortgage and your children have finished college, you may need less than this. Review your individual situation to determine how much you'll need.

**Set the percentage of stocks in your portfolio to 100 minus your age.** With increased life expectancies, this can result in a portfolio that is too heavily weighted in income investments. Set your asset allocation based on your risk tolerance and time horizon for investing. Stocks should be considered for long-term financial goals of 10 years or more.

**Keep three to six months of income in an emergency fund.** While an emergency fund is a good idea, how much you keep in that fund will depend on your circumstances. You may need a larger fund if you are the sole wage earner in the family, work at a seasonal job, own your own business, or rely on commissions or bonuses. A smaller fund may be required if you have more than one source of income, can borrow significant sums quickly, or carry insurance to cover many emergencies.

**Pay no more than 20% of your take-home pay toward short-term debt.** Once considered a firm rule by lenders, you may now be able to obtain loans even if you exceed this amount. Try to reduce your debt or at least reduce the interest rates on your debt.

**Keep your mortgage or rent payment to no more than 30% of your gross income.** While you can obtain a mortgage for more than that, staying within this rule will help ensure you have money to devote to other financial goals.

**Refinance your mortgage if interest rates decline by 2%.** This rule of thumb assumes you'll pay significant refinancing costs, including points, title insurance, appraisal fees, and other fees. However, many lenders now offer refinancing deals with significantly lower costs. Thus, you should assess whether it makes sense to refinance when mortgage rates decline by as little as half a percent.

**Obtain life insurance equal to six times your annual income.** Different individuals require vastly different amounts of insurance, depending on whether one or both spouses work, minor children are part of the family, or insurance is being obtained for other needs, such as to fund a buy-sell agreement or to help pay estate taxes. Thus, you should determine your precise needs before purchasing insurance.

Most financial rules of thumb should not be followed without first considering your individual circumstances. Please call if you'd like to address your needs in any of these areas. ❍❍❍

# How to Set Savings Goals

Setting clear, specific savings goals is one of the best ways to achieve your financial objectives, but it's a task that many people struggle with. Unfortunately, establishing savings goals is a bit more complex than simply picking a number out of the sky and hoping you can eventually set aside that much cash. Below is a simple seven-step plan that you can use to set — and reach — your savings goals.

## 1. Select Goals

Before you start saving, it helps to know what you are saving for, since most of us find it easier to save money if we know it will eventually be used for a specific purpose. Common savings goals are creating an emergency fund with at least six months of living expenses or saving for retirement, a child's college education, a down payment, or a vacation. Your goals will be as unique as you are; the most important thing is that you select them and make them as specific as possible.

## 2. Determine How Much You Need to Save

Exactly how much money do you need to accomplish your goal? For example, you may want to have $5,000 saved for your dream vacation, $30,000 for a down payment on your first home, or $1 million for retirement. Don't pick a random number at this point — research how much you'll actually need so you can be confident that your savings will be sufficient to achieve your goals.

## 3. Consider Your Timeline

Savings goals can generally be divided into three broad categories: short-term (those that you hope to reach in a year or less), mid-term (those that are roughly one to five years away) and long-term (goals you hope to achieve in five years or more). It's important to know your timeline, since it will have a direct impact on how aggressively you need to save to hit that target and where you put your money.

## 4. Determine How Much to Set Aside Each Week or Month

For short-term goals, this step is fairly simple. Say you plan to get married in a year, and you want to have $10,000 saved toward that goal before your big day. To meet that goal, you'll need to save roughly $833 per month for the next year, or $10,000 divided by 12.

Determining how much you need to save to hit your long- and mid-term goals can be a bit more complicated, as you'll need to take into account the growth of your investments.

Whatever the timeframe for your goals, making these calculations is important because it allows you to adjust your savings as your budget allows. For example, if you can't afford to save the over $800 a month you need for the wedding, you have two options: You can either adjust your timeline or opt to keep it the same and save less.

## 5. Automate Your Savings If Possible

Once you know how much you need to save, you'll likely find it easier to stick to your plan if you can automate your savings. Adopt the pay-yourself-first principle and set up automatic transfers to your savings or investment accounts. The key is to save the money before you ever have a chance to spend it, as well as to avoid forgetting to make the transfers.

## 6. Choose the Right Way to Save

Depending on your goals and timeline, you have different options for savings. Traditional savings accounts are a good option for short-term goals, since your money will be safe. Investment accounts and retirement accounts, like a 401(k) plan or IRA, are good options for longer term goals, since you'll earn money as you save.

## 7. Watch Your Money Grow

Once you have your savings plan in place, keep an eye on how it is doing. You will need to periodically review your results and make adjustments as necessary.

Please call if you'd like to discuss your savings goals in more detail. ❍❍❍

# Long-Term Portfolio Management

If you're in the markets for the long haul and look to capture the benefits of long-term trends, you should focus on the tools that maximize your long-term rate of return while managing the risks you take:

**Asset allocation.** A long-term asset allocation strategy aims at determining an optimal mix of stocks, bonds, and cash equivalents in your portfolio to suit how much risk you're willing to take. The benefit of investing in all three asset classes is diversification — spreading investments among assets that have different cycles of return.

**Portfolio rebalancing.** This may be the most overlooked technique for potentially boosting returns and controlling risk. Yet the technique is relatively simple: once a year (or some other predetermined time period), compare the percentage of your assets in each class to your strategy. Then sell some assets from the categories that are larger than your strategy calls for and use the proceeds to buy more of the assets that decreased in value. The principle is that rebalancing forces you to sell high and buy low.

**Dollar-cost averaging.** This technique actually puts market downturns to work in your favor. The method is to invest a set amount of money on a recurring basis in each asset class. By continuing to make purchases when prices decline, you buy more shares than you do when prices are high. Keep in mind that dollar-cost averaging neither guarantees a profit nor protects against loss in a prolonged declining market. Because dollar-cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.

Between the strategies of trading actively and managing your portfolio strictly for the long term is a technique called tactical asset allocation. This involves moving significant chunks of your portfolio from one asset class to another, depending upon your reading of the changing prospects for risk and reward.

Trading involves market timing, which in turn depends on reading market and economic indicators with precision. Is watching the indicators for the right moment to move in a new direction the right approach for you?

To determine the approach right for you, please call. ❍❍❍

## Borrow Wisely

✔ Use debt only for items that have the potential to increase in value, such as a home, college education, or home remodeling.

✔ Consider a shorter term when applying for loans.

✔ Make as large a down payment as you can afford. If you can make prepayments without incurring a penalty, this can also significantly reduce the interest paid.

✔ Consolidate high interest-rate debts with lower-rate options. It is typically fairly easy to transfer balances from higher-rate to lower-rate credit cards.

✔ Compare loan terms with several lenders, since interest rates can vary significantly. Negotiate with the lender. Although most lenders have official rates for each type of loan, you can often convince them to give you a lower rate if you are a current customer or have an outstanding credit score. Review all your debt periodically, including mortgage, home equity, auto, and credit card debt, to see if less expensive options are available.

✔ Review your credit report before applying for a loan. You then have an opportunity to correct any errors that might be on the report. ❍❍❍

*"Those who are happiest are those who do the most for others."*

**~ Booker T. Washington**