



## **Financial Planning for Economic Success in 2012**

Another interesting year in the stock market draws to a close. It's been a tough year for most investors. The Dow started the year at roughly 11,700, rose through January and February, then gave up most of its gains by mid-March, only to bounce right back in the second-half of March and all of April and early May to a high of 12,800, which it then surrendered back by early August, then dipped to a low of 10,650 by early October, and then fitfully dug itself out of the hole to end the year near the 12,000 level – a year marked by sharp volatility that ended with a whimpering gain of somewhere near 3%... barely keeping up with inflation... with much of the market's gyrations tied to the turmoil in Europe.

Yet, on an optimistic note, let me also remind you that the U.S. economy more or less held strong. Furthermore, investors worldwide flocked once again to the U.S. dollar and U.S. Treasuries as an economic safe haven in times of crisis, which led to a sharp rally of the dollar, in the second half of 2011, versus major European currencies such as the Euro and the Pound. But as I have said before, the Arab Spring and great turmoil in Europe held back U.S. economic buoyancy and caused our stock markets to suffer in an increasingly interconnected world of global trade and investment.

So, I'd like to celebrate the fact that the U.S. economy "hung in there", and that our stock market did not crater... given everything terrible that's happened in 2011 in economic terms. Also, comparatively speaking, other markets fared much worse. China-down 19%, Japan down 15% and on average, the rest down around 20%. So I'll take the 3 % market gain or a 3% loss in a year like this very willingly----without complaining too much, because it underscores the U.S.'s fundamental economic resilience and gives me

confidence that we will see higher returns in the years ahead as global economies work out their kinks and stabilize. And as the year closes, I'd rather focus on the positives than the negatives.

And as the year ends, this is also a good time for all of us – as investors and as investment advisors – to take care of some housekeeping so we are economically better prepared for 2012. So here are four financial planning steps that I'd like each of you to consider and act on before we head into 2012:

1. Build a budget: I know a few of you are very good at financial planning and budgeting, and equally importantly, at adhering to your budget. But for those of you that have been putting this off, I strongly urge you to start budgeting now... It's not rocket science but it takes a little discipline. Here's how you can build a simple monthly budget –
  - a. Track your total household income from every source on a piece of paper or on a spreadsheet: deduct what you must set aside for taxes; then carefully apportion the balance into prioritized non-discretionary and discretionary spending buckets – for rent or mortgage, utilities, property taxes; for groceries, gas and clothing; for retirement contributions and investments; then for entertainment, eating out, vacations and other discretionary items. Just this simple exercise of developing a budget is a great first step towards controlling your wasteful spending and saving more.
  - b. Once you have this budget, track your expenses every week and make sure you do not exceed your budget. Sock away as much as you can and, ideally, put aside at least six months of cash, invested perhaps in CDs or a savings account that you can tap into as a rainy day fund should you lose a job or be faced with some other emergency. In addition to being good fiscal practice, budgeting will also bring you tremendous peace of mind.
  - c. Now's also a great time to teach your kids about budgeting – getting them to track their expenses with their pocket money and showing them how to save for their favorite iPhone or Playstation or CDs and DVDs...

essentially giving them a financial education that will stand them in good stead as they grow and go from saving for college to buying a house, and so on.

2. Regularly save for your retirement: As I keep saying, and as most of you know by now, compounding is a very powerful way of growing your savings. And the sooner you start, the more you will benefit from compounding. So start socking away as much as you can into your retirement savings accounts. And remember this... if you use compounding wisely, your portfolio will easily bear the brunt of a few years of low or even negative returns. So examine what you have been contributing to your retirement savings accounts and see if you can increase this amount. The government sets a maximum amount you can contribute to your retirement account to receive a deduction on your taxes. So try to take advantage of the full amount.
  - a. Additionally, speak to your company's HR folks about *matching* employer contributions for your IRA – this is free money that you should take if you can. In fact, time and again, I hold my head in disbelief when I find out that someone's been working for a company with a generous *matching contribution* benefit for ten or fifteen years, and just did not take advantage of that program... a very, very expensive mistake that literally sets them back hundreds of thousands of dollars. So I implore you... take advantage of employer contributions to your retirement savings. And where your company does not have a matching program, consider using a Roth IRA where you pay taxes today on what you invest in your Roth IRA but are exempt from taxes when you tap into this in retirement.
3. Plan for college expenses: I think we all know the tangible economic value of an education. Surveys routinely show that college graduates make far more in lifetime earnings, on average, than those without college degrees. We of course have guys like Bill Gates and Steve Jobs who dropped out of college and went on to become billionaires, but I think we all agree that they are outstanding exceptions. So... a college degree typically improves your economic future – and

you must think of school and college expenses as an investment into your future or into the future of your kids or grand-kids. I think we also know that college tuitions unfortunately have been rising dramatically year on year, so putting a child through school and college now runs into hundreds of thousands of dollars – heck, room and board alone could easily cost you a thousand a month, which is about \$50,000 over four years, not counting tuition and other expenses such as books, computers, school trips, etc. So please actively save for college starting now, if you haven't already.

- a. And fortunately, the government does allow a way to invest and have the earning grow tax free through 529 plans specific to the state you live in –
  - b. Don't forget, too, that your child should be responsible for some of their college costs. Teach them this early so they will know what to do and how to behave when they go away to college.
4. Finally, Invest Wisely: So after you've done your budgeting, retirement contributions and college savings, you've got to make sure this pot of money you're setting aside grows nicely – compounds nicely – to pay for your retirement, college, medical expenses, etc. So invest this money wisely and conservatively – speak to your financial advisor about how you can diversify your savings using a combination of stocks, mutual funds, money market accounts, CDs, government and corporate bonds, foreign funds and other investments – so you have a comfortable future for yourself and your family. And try to tune into my show and others like it or checkout my commentary online, just once a week for useful tips on how to shepherd your investments to see them grow nicely – and I say this not because I want more people tuning into my show but because I really do want you to not make common investing mistakes, I really do want you to become a cautious and wise investor, and I really do want to see you succeed financially, in 2012 and beyond.