Financial Fitness

Dunckleee & Nott Monthly Newsletter

Duncklee & Nott
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Hi friends and clients!
We hope everyone has been enjoying the summer! July brought us a great Duncklee & Nott open house and shredding party, as well as another beautiful day for our annual Duncklee & Nott Open client appreciation golf tournament. This year was our largest ever, and the weather was ideal.
Upcoming in August is the Boothbay Harbor Cruise. If you have misplaced your newsletter with the details, please feel free to call if you are interested. We'll be reaching out to everyone who has signed up.
Enjoy the rest of the summer, and this month's articles!

Jim, Ken, Megan, Sharon, & Susie

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Financial Mistakes People Make at Different Ages

There's a saying that with age comes wisdom, but this may not always be true in the financial world. As people move through different life stages, there are new opportunities--and potential pitfalls--around every corner.

In your 20s

Living beyond your means. It's tempting to want all the latest and greatest in gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle. If you take on too much debt--or don't work diligently to start paying off the debt you have--it can hold you back financially for a long, long time.

Not saving for retirement. You've got plenty of time, so what's the rush? Well why not harness that time to work for you. Start saving a portion of your annual pay now and your 67-year-old self will thank you.

Not being financially literate. Many students graduate from high school or college without knowing the basics of money management. Learn as much as you can about saving, budgeting, and investing now so you can benefit from it for the rest of your life.

In your 30s

Being house poor. Whether you're buying your first home or trading up, don't buy a house that *you* can't afford, even if the *bank* says you can. Build in some wiggle room for a possible dip in household income that could result from switching jobs, going back to school, or leaving the workforce to raise a family.

Not protecting yourself with life and disability insurance. Life is unpredictable. What would happen if one day you were unable to work and earn a paycheck? Let go of the "it-won't-happen-to-me" attitude. Though the cost and availability of life insurance depend on several factors including your health, the younger you are when you buy insurance, the lower your premiums will likely be.

Not saving for retirement. Okay, maybe your 20s passed you by in a bit of a blur and retirement wasn't even on your radar screen. But now that you're in your 30s, it's critical to start saving for retirement. Wait much longer, and it can be hard to catch up. Start now, and you still have 30 years or more to save.

In your 40s

Trying to keep up with the Joneses. Appearances can be deceptive. The nice homes, cars, vacations, and "stuff" that others have might make you wonder whether you should be buying these things, too. But behind the scenes, your neighbors could be taking on a lot of debt. Take pride in your savings account instead.

Funding college over retirement. In your 40s, saving for your children's college costs over your own retirement is a mistake. If you have limited funds, set aside a portion for college but earmark the majority for retirement. Then sit down with your teenager and have a frank discussion about academic options that won't break the bank--for either of you.

Not having a will or an advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

In your 50s and 60s

Co-signing loans for adult children. Co-signing means you're on the hook--completely--if your child can't pay, a situation you don't want to find yourself in as you're getting ready to retire.

Raiding your home equity or retirement funds. It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

Not quantifying your retirement income. As you approach retirement, you should know how much you can expect from Social Security (at age 62, at your full retirement age, and at age 70), pension income, and your personal retirement savings.

Not understanding health-care costs in retirement. Before you turn age 65, review what Medicare does and doesn't cover, and how gap insurance policies fit into the picture.

See disclaimer on final page

The Cost of Credit

All calculations assume constant monthly payments over the life of the loan, monthly calculation of interest on the remaining unpaid principal, and no prepayment.

This information is provided for illustrative purposes only. The actual amount of interest you'll pay on a loan will depend on several factors, including the amount you borrow, the interest rate, the repayment term, and loan conditions.

Sometimes you need to borrow money, especially to pay for a large purchase such as a home or a car. It's easy to focus on your monthly loan payment, but to appreciate how much borrowing money might really cost, you also need to consider the amount of interest you'll pay over time. The following tables illustrate the total interest paid over the life of three common types of loans that have a fixed annual interest rate and a fixed repayment term: mortgage loans, auto loans, and personal loans.

Mortgage loans

A home is often the biggest purchase you'll ever make. Loan repayment terms vary; this chart illustrates the total interest paid over a 30-year repayment term.

Loan amount	3%	4%	5%	6%
$250,000	$129,444	$179,674	$233,139	$289,595
$350,000	$181,221	$251,543	$326,395	$405,434
$450,000	$232,999	$323,413	$419,651	$521,272
$550,000	$284,776	$395,282	$512,907	$637,110
$650,000	$336,553	$467,152	$606,163	$752,948
$750,000	$388,331	$539,021	$699,418	$868,786

Auto loans

You may take out a loan to buy a new or used vehicle. Loan repayment terms vary; this chart illustrates the total interest paid over a 60-month repayment term.

Loan amount	2%	4%	6%	8%
$15,000	$775	$1,575	$2,400	$3,249
$20,000	$1,033	$2,100	$3,199	$4,332
$25,000	$1,292	$2,625	$3,999	$5,415
$30,000	$1,550	$3,150	$4,799	$6,498
$35,000	$1,808	$3,675	$5,599	$7,580

Personal loans

A personal loan is unsecured, meaning that no collateral is required, so the interest rate on this type of loan is typically higher than for a secured loan. Loan repayment terms vary; this chart illustrates the total interest paid over a 36-month repayment term.

Loan amount	6%	8%	10%	12%
$8,000	$762	$1,025	$1,293	$1,566
$10,000	$952	$1,281	$1,616	$1,957
$12,000	$1,142	$1,537	$1,939	$2,349
$14,000	$1,333	$1,794	$2,263	$2,740
$16,000	$1,523	$2,050	$2,586	$3,131

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[1] *This hypothetical example is for illustrative purposes only. Investment returns will fluctuate and cannot be guaranteed.*

[2] *All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Investments offering a higher potential rate of return also involve a higher level of risk.*

[3] *Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against a loss.*

[4] *There is no assurance that working with a financial professional will improve your investment results.*

[5] *Withdrawals from your retirement plan prior to age 59½ (age 55 in the event you separate from service) may be subject to regular income taxes as well as a 10% penalty tax.*

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Age-Based Tips for Making the Most of Your Retirement Savings Plan

No matter what your age, your work-based retirement savings plan can be a key component of your overall financial strategy. Following are some age-based points to consider when determining how to put your plan to work for you.

Just starting out

Just starting your first job? Chances are you face a number of financial challenges. College loans, rent, and car payments all compete for your hard-earned paycheck. Can you even consider contributing to your retirement plan now? Before you answer, think about this: The time ahead of you could be your greatest advantage. Through the power of compounding--or the ability of investment returns to earn returns themselves--time can work for you.

Example: *Say at age 20, you begin investing $3,000 each year for retirement. At age 65, you would have invested $135,000. If you assume a 6% average annual rate of return, you would have accumulated $638,231 by that age. However, if you wait until age 45 to invest that $3,000 each year, and earn the same 6% annual average, by age 65 you would have invested $60,000 and accumulated $110,357. By starting earlier, you would have invested $75,000 more but would have accumulated more than half a million dollars more. That's compounding at work. Even if you can't afford $3,000 a year right now, remember that even smaller amounts add up through compounding.*[1]

Finally, time offers an additional benefit to young adults: the ability to potentially withstand greater short-term losses in pursuit of long-term gains. You may be able to invest more aggressively than your older colleagues, placing a larger portion of your retirement portfolio in stocks to strive for higher long-term returns.[2]

Getting married and starting a family

At this life stage, even more obligations compete for your money--mortgages, college savings, higher grocery bills, home repairs, and child care, to name a few. Although it can be tempting to cut your retirement plan contributions to help make ends meet, try to avoid the temptation. Retirement needs to be a high priority throughout your life.

If you plan to take time out of the workforce to raise children, consider temporarily increasing your plan contributions before leaving and after you return to help make up for the lost time and savings.

Also, while you're still decades away from retirement, you may have time to ride out market swings, so you may still be able to invest relatively aggressively in your plan. Be sure to fully reassess your risk tolerance before making any decisions.[2]

Reaching your peak earning years

This stage of your career brings both challenges and opportunities. College bills may be invading your mailbox. You may have to take time off unexpectedly to care for yourself or a family member. And those pesky home repairs never seem to go away.

On the other hand, with 20+ years of experience behind you, you could be earning the highest salary of your career. Now may be an ideal time to step up your retirement savings. If you're age 50 or older, you can contribute up to $24,000 to your plan in 2015, versus a maximum of $18,000 if you're under age 50. (Some plans impose lower limits.)

Preparing to retire

It's time to begin thinking about when and how to tap your plan assets. You might also want to adjust your allocation, striving to protect more of what you've accumulated while still aiming for a bit of growth.[3]

A financial professional can become a very important ally at this life stage. Your discussions may address health care and insurance, taxes, living expenses, income-producing investment vehicles, other sources of income, and estate planning.[4]

You'll also want to familiarize yourself with required minimum distributions (RMDs). The IRS requires you to begin taking RMDs from your plan by April 1 of the year following the year you reach age 70½, unless you continue working for your employer.[5]

Other considerations

Throughout your career, you may face other decisions involving your plan. Would Roth or traditional pretax contributions be better for you? Should you consider a loan or hardship withdrawal from your plan, if permitted, in an emergency? When should you alter your asset allocation? Along the way, a financial professional can provide an important third-party view, helping to temper the emotions that may cloud your decisions.

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What return are you really earning on your money?

If you're like most people, you probably want to know what return you might expect before you invest. But to translate a given rate of return into actual income or growth potential, you'll need to understand the difference between *nominal return* and *real return,* and how that difference can affect your ability to target financial goals.

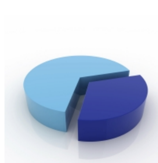
Let's say you have a certificate of deposit (CD) that's about to expire. The yield on the new three-year CD you're considering is 1.5%.

But that 1.5% is the CD's nominal rate of return; it doesn't account for inflation or taxes. If you're taxed at the 28% federal income tax rate, roughly 0.42% of that 1.5% will be gobbled up by federal taxes on the interest. Okay, you say, that still leaves an interest rate of 1.08%; at least you're earning something.

However, you also need to consider the purchasing power of the interest that the CD pays. Even though inflation is relatively low today, it can still affect your purchasing power, especially over time. Let's say that consumer prices have gone up by 1% over the past year and you adjust your 1.08% after-tax return for inflation. Suddenly, you're barely breaking even on your investment.

What's left after the impact of inflation and taxes is your real return, because that's what you're really earning in actual purchasing power. If the nominal return on an investment is low enough, the real return can actually be negative, depending on your tax bracket and the inflation rate over time. Though this hypothetical example doesn't represent the performance of any actual investment, it illustrates the importance of understanding what you're really earning.

Knowing the difference between nominal and real return may help you make better decisions when it comes to investing your money. You'll want to choose investments that match your financial goals and tolerance for risk. In some cases, the security an investment offers may be important enough that you're willing to accept a low real return; in other cases, you may choose an investment that has the potential for a higher real return but carries a higher degree of risk.



What is asset allocation?

Each type of investment has specific strengths and weaknesses that enable it to play a specific role in your overall investing strategy. Some investments may offer growth potential. Others may provide regular income or relative safety, or simply serve as a temporary place to park your money. And some investments may even serve to fill more than one role. Because you likely have multiple needs and objectives, you probably need some combination of investment types, or asset classes.

Balancing how much of each asset class should be included in your portfolio is a critical task. The balance between growth, income, and safety is determined by your asset allocation, and it can help you manage the level and types of risks you face.

The combination of investments you choose can be as important as your specific investments. Your mix of various asset classes such as stocks, bonds, and cash alternatives generally accounts for most of the ups and downs of your portfolio's returns.

Ideally, your portfolio should have an overall combination of investments that minimizes the risk you take in trying to achieve a targeted rate of return. This often means balancing conservative investments against others that are designed to provide a higher potential return but also involve more risk. However, asset allocation doesn't guarantee a profit or eliminate the possibility of investment loss.

Someone living on a fixed income, whose priority is having a regular stream of money coming in, will probably need a very different asset allocation than a young, well-to-do working professional whose priority is saving for a retirement that's 30 years away. Even if two people are the same age and have similar incomes, they may have very different needs and goals, and their asset allocations should be tailored to their unique circumstances.

And remember, even if your asset allocation was appropriate for you when you chose it, it may not be appropriate for you now. It should change as your circumstances do and as new ways to invest are introduced. A piece of clothing you wore 10 years ago may not fit now; you just might need to update your asset allocation, too.

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