FDR GROUP INC.

6 Money Myths That Are Limiting Your Wealth

When people think of "myths," they often think of such stories as Pandora's Box (the woman who took the lid off of a jar releasing all of the world's ills upon the world, were taxes one of them?), or the Tale of Prometheus (who stole fire from his fellow gods to give to humans and was punished by Zeus with eternal suffering). However, money myths have also been circulated with such frequency that many people unknowingly believe them. These myths also tend to restrict people's thinking regarding their money, which can potentially limit their wealth opportunities.

Here are 6 myths that we want to bust! Hopefully, Zeus doesn't punish us for sharing them:

Myth # 1 – Investing in the stock market is too risky

- Many are wary of investing in the stock market for fear that they will lose all of their money should the market dramatically take a turn for the worse. One way to mitigate this fear and manage your risk is to have a diverse portfolio. Having a diverse portfolio involves a variety of stocks (ownership in different companies) and also owning several different kinds of investments, from stocks to bonds to short-term investments to name a few. [i] If there happens to be a downturn in the market and one of the stocks doesn't perform well, having multiple types of investments could potentially lessen the blow. But when it comes to investing, it is about understanding how the market works and being mindful of your risk tolerance.
- Another risk-aware method of investing in the stock market to consider is investing through exchange-traded funds or mutual funds, where your money is pooled with other investors and used to purchase securities. Doing so provides you ownership in several companies while simultaneously creating diversity within your portfolio. These funds are professionally managed, adding another layer of risk management. They are affordable, and investors can easily redeem their shares anytime. [ii]
- Time is also a factor when you invest money. If the market is bullish for a time, having a long-term strategy can allow the investment time to recover over the long haul. If your intention is slow, long-term growth with a diversified portfolio, the risk factor decreases even more.

Myth # 2 – You will be in a lower tax bracket when you retire

- Many workers believe that they will fall into a lower tax bracket when they retire. However, this is only sometimes the case. There are a couple of reasons why this might not happen:
  - Future tax rates may be higher than they are today. A good example of this is happening right now. Prior to the Tax Cuts and Jobs Act, which took effect Jan. 1, 2018, the top tax bracket was 39.6 %. [iii] Currently, it is 37%, although this may increase once again to 39.6% in 2026 when the Tax Cuts and Jobs Act sunsets. [iv] As the government and the market continually evolve, it is hard to say what your tax bracket will be when you finally retire, or how it may fluctuate in the years after retirement.
  - After retirement, you have less tax deductions. If your kids are grown, there will be no dependents to claim. If your house is paid off, there will be no mortgage interest deduction and no annual tax-deferred contributions to your 401(k) to reduce income. [v]
  - Withdrawals from your retirement account can bump you into a higher marginal tax bracket. This is primarily a concern for individuals in the top tax bracket. When you withdraw from a retirement account, you don't pay higher taxes on your other income; instead, you pay just on the retirement account withdrawal. However, consult with a financial professional and discuss how much you can withdraw without exceeding your bracket's maximum. [vi]

Myth # 3 – You can’t contribute to an IRA after you retire

- Even if you are retired, you can still contribute to traditional or Roth IRAs if you have earned income. Your contributions to a traditional IRA may be tax-deductible. [vii] Earned income is generated by a wage, salary, bonus, or tips, so you would have to have some kind of part-time work. Neither interest nor Social Security qualifies as earned income. [viii]

Myth # 4 – Saving for retirement is hopeless if I start late or contribute small amounts

- It seems like a while down the road before you have to retire, and right now, you can only contribute a small amount, so what good would that do? But money has a way of accumulating, especially if you start investing early. However, it is never too late to begin saving for your retirement. Discussing your plans and financial condition with a financial professional is a good way to learn effective methods to pursue your retirement goals.

Myth # 5 – All debt is bad debt

- The word debt comes with uneasy connotations; however, not all debt is bad. In a nutshell, having “good” debt refers to money that was borrowed to increase your income over time, like student loans, a business loan, or a home mortgage. “Bad” debt, on the other hand, is considered money spent that doesn’t help your financial position, for example credit card debt, personal loans or even an auto loan.[ix][x]

Myth # 6 – It is impossible to know today how much money you will need to retire

- Every year the cost of living and inflation continues to rise, and the market regularly fluctuates. In times of a bullish market, it seems like the market will never turn, but historically speaking, over the past century, the stock market has averaged a return of about 10 percent per year. [xi] When we were young, our parents encouraged us to save around 10 percent of every paycheck and put the money toward retirement. Today, financial professionals suggest saving 20 percent which includes employer contributions. [xii]

A helpful way to bust money myths and develop a suitable financial strategy is to consult with a financial professional who can help guide you on your financial journey.

Important Disclosures
The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing.
Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.
Past performance is no guarantee of future results.
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks such as not diversified, price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking errors.
Investing in mutual funds involves risk, including possible loss of principal. The funds value will fluctuate with market conditions and may not achieve its investment objective. Upon redemption, the value of fund shares may be worth more or less than their original cost.
Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax.
The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.
This information is not intended to be a substitute for specific individualized tax advice We suggest that you discuss your specific tax issues with a qualified tax advisor.
All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

This article was prepared by LPL Marketing Solutions

Footnotes:

[i] What Is Portfolio Diversification? - Fidelity, [ii] Mutual Funds | Investor.gov, [iii] 2017 Tax Brackets | Center for Federal Tax Policy | Tax Foundation, [iv] Will you be ready for tax changes in 2026? - Albuquerque Journal (abqjournal.com),[v] 12 Questions Retirees Often Get Wrong About Taxes in Retirement | Kiplinger, [vi] How Retirement Account Withdrawals Affect Your Tax Bracket (investopedia.com), [vii] Retirement Topics - IRA Contribution Limits | Internal Revenue Service (irs.gov), [viii] Can a Person Who Is Retired Continue to Fund an IRA? (investopedia.com), [ix] Good Debt vs. Bad Debt: What’s the Difference? (investopedia.com), [x] Good Debt Vs. Bad Debt | Types of Debt |credit.org, [xi] What Is the Average Stock Market Return? - NerdWallet, [xii] How Much of My Paycheck Should I Save? - Buy Side from WSJ

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