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CAMBRIDGE
INVESTMENT RESEARCH, INC.

The Oracle's Investment Letter

Providing Financial Planning and Life Insurance

When a Saver Marries a Spender, Every Penny Counts

If you're a penny pincher but your spouse is penny wise and pound foolish, money arguments may frequently erupt. Couples who have opposite philosophies regarding saving and spending often have trouble finding common ground. Thinking of yourselves as two sides of the same coin may help you appreciate your financial differences.

Heads or tails, saver or spender

If you're a saver, you love having money in the bank, investing in your future, and saving for a rainy day. You probably hate credit card debt and spend money cautiously. Your spender spouse may seem impulsive, prompting you to think, "Don't you care about our future?" But you may come across as controlling or miserly to your spouse who thinks, "Just for once, can't you loosen up? We really need some things!"

Such different outlooks can lead to mistrust and resentment. But are your characterizations fair? Your money habits may have a lot to do with how you were raised and your personal experience. Being a saver or a spender may come naturally; instead of assigning blame, try to see your spouse's side.

Start by discussing your common values. What do you want to accomplish together? Recognize that spenders may be more focused on short-term goals, while savers may be more focused on long-term goals. Ultimately, whether you're saving for a vacation, a car, college, or retirement, your money will be spent on something. It's simply a matter of deciding together when and how to spend it.

A penny for your thoughts?

Sometimes couples avoid talking about money because they are afraid to argue. But talking about money may actually help you and your spouse avoid conflict. Scheduling regular money meetings could help you gain a better understanding of your finances and provide a forum for handling disagreements.

To help ensure a productive discussion, establish some ground rules. For example, you might set a time limit, insist that both of you come prepared, and take a break in the event the discussion becomes heated. Communication and compromise are key. Don't assume you know what your spouse is thinking--ask--and be willing to negotiate. Here are some questions to get started.

- What does money represent to you? Security? Freedom? The opportunity to help others?
- What are your short-term and long-term savings goals?
- How much money is coming in and how much is going out? Never assume that your spouse knows as much about your finances as you do.
- How comfortable are you with debt, including mortgage debt, credit card debt, and loans?
- Who should you spend money on? Do you agree on how much to give to your children or how much to spend on gifts to family members and friends, for example?
- What rules would you like to apply to purchases? One option is to set a limit on how much one spouse can spend on an item without consulting the other.
- Would you like to set aside some discretionary money for each of you? Then you would be free to save or spend those dollars without having to justify your decision.

Once you've explored these topics, you can create a concrete budget or spending plan that reflects your financial personalities. To satisfy you and your spouse, make savings an "expense" and allow some room in the budget for unexpected expenses. And track your progress. Having regular meetings to go over your finances will enable you to celebrate your financial successes or identify areas where you need to improve. Be willing to make adjustments if necessary.

Finally, recognize that getting on the same page is going to take some work. When you got married, you promised to love your spouse for richer or poorer. Maybe it's time to put your money where your mouth is.

Give Your Retirement Plan an Annual Checkup

As you reconsider your retirement income needs, it might also make sense to check your expected Social Security benefit and any other potential sources of income. To get an estimate of your future Social Security payments, go to socialsecurity.gov and select "my Social Security."

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

All investing involves risk, including the possible loss of principal. There can be no assurance that any investment strategy will be successful.

Financial professionals typically recommend that you review your employer-sponsored retirement savings plan annually and when major life changes occur. If you haven't revisited your plan yet in 2015, the end of the year may be an ideal time to do so.

Reexamine your risk tolerance

This past year saw moments that would try even the most resilient investor's resolve. When you hear media reports about stock market volatility, is your immediate reaction to consider selling some of the stock investments in your plan? If that's the case, you might begin your annual review by reexamining your risk tolerance.

Risk tolerance refers to how well you can ride out fluctuations in the value of your investments while pursuing your long-term goals. An assessment of your risk tolerance considers, among other factors, your investment time horizon, your accumulation goal, and assets you may have outside of your plan account. Your retirement plan's educational materials likely include tools to help you evaluate your risk tolerance, typically worksheets that ask a series of questions. After answering the questions, you will likely be assigned a risk tolerance ranking from conservative to aggressive. In addition, suggested asset allocations are often provided for consideration.

Have you experienced any life changes?

Since your last retirement plan review, did you get married or divorced, buy or sell a house, have a baby, or send a child to college? Perhaps you or your spouse changed jobs, received a promotion, or left the workforce entirely. Has someone in your family experienced a change in health? Or maybe you inherited a sum of money that has had a material impact on your net worth. Any of these situations can affect both your current and future financial situation.

In addition, if your marital situation has changed, you may want to review the beneficiary designations in your plan account to make sure they reflect your current wishes. With many employer-sponsored plans, your spouse is automatically your plan beneficiary unless he or she waives that right in writing.

Reassess your retirement income needs

After you evaluate your risk tolerance and consider any life changes, you may want to take another look at the future. Have your dreams for retirement changed at all? And if so, will those changes affect how much money you will need to live on? Maybe you've reconsidered plans to relocate or travel extensively, or now plan to start a business or work part-time during retirement.

All of these factors can affect your retirement income needs, which in turn affects how much you need to save and how you invest today.

Is your asset allocation still on track?

Once you have assessed your current situation related to your risk tolerance, life changes, and retirement income needs, a good next step is to revisit the asset allocation in your plan. Is your investment mix still appropriate? Should you aim for a higher or lower percentage of aggressive investments, such as stocks? Or maybe your original target is still on track but your portfolio calls for a little rebalancing.

There are two ways to rebalance your retirement plan portfolio. The quickest way is to sell investments in which you are overweighted and invest the proceeds in underweighted assets until you hit your target. For example, if your target allocation is 75% stocks, 20% bonds, and 5% cash but your current allocation is 80% stocks, 15% bonds, and 5% cash, then you'd likely sell some stock investments and invest the proceeds in bonds. Another way to rebalance is to direct new investments into the underweighted assets until the target is achieved. In the example above, you would direct new money into bond investments until you reach your 75/20/5 target allocation.

Revisit your plan rules and features

Finally, an annual review is also a good time to take a fresh look at your employer-sponsored plan documents and plan features. For example, if your plan offers a Roth account and you haven't investigated its potential benefits, you might consider whether directing a portion of your contributions into it might be a good idea. Also consider how much you're contributing in relation to plan maximums. Could you add a little more each pay period? If you're 50 or older, you might also review the rules for catch-up contributions, which allow those approaching retirement to contribute more than younger employees.

Although it's generally not a good idea to monitor your employer-sponsored retirement plan on a daily, or even monthly, basis, it's important to take a look at least once a year. With a little annual maintenance, you can help your plan keep working for you.

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Periodic Review of Your Estate Plan

An estate plan should be reviewed periodically, especially after a major life event. Here are some ideas about when to review your estate plan and some things to review when you do.

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. It allows you to control what happens to your property if you die or become incapacitated. An estate plan should be reviewed periodically.

When should you review your estate plan?

Although there's no hard-and-fast rule about when you should review your estate plan, the following suggestions may be of some help:

- You should review your estate plan immediately after a major life event
- You'll probably want to do a quick review each year because changes in the economy and in the tax code often occur on a yearly basis
- You'll want to do a more thorough review every five years

Reviewing your estate plan will alert you to any changes that need to be addressed.

There will be times when you'll need to make changes to your plan to ensure that it still meets all of your goals. For example, an executor, trustee, or guardian may die or change his or her mind about serving in that capacity, and you'll need to name someone else.

Events that should trigger a periodic review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren
- There has been an addition to your family through birth, adoption, or marriage (stepchildren)
- Your spouse or a family member has died, has become ill, or is incapacitated
- Your spouse, your parents, or other family member has become dependent on you
- There has been a substantial change in the value of your assets or in your plans for their use
- You have received a sizable inheritance or gift
- Your income level or requirements have changed
- You are retiring
- You have made (or are considering making) a change to any part of your estate plan

Some things to review

Here are some things to consider while doing a periodic review of your estate plan.

- Who are your family members and friends? How do you feel about them?
- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Does your choice of an executor or a guardian for your minor children remain appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust, durable power of attorney, or joint ownership to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiary at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.

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What is compound interest?

When Benjamin Franklin died in 1790, he left the equivalent of $4,400 each to the cities of Boston and Philadelphia in his will, under the condition that the money be loaned and invested. He stipulated that the cities would have access to a portion of the funds after 100 years and receive the remaining funds after 200 years. When the cities received their balances after 200 years, the combined bequest had grown to $6.5 million. How did such a small initial sum grow to such a large amount? Through the power of compound interest. (Source: Benjamin Franklin Institute of Technology, Codicil to Benjamin Franklin's Will)

There are two basic types of interest: simple and compound. The main difference between the two is that simple interest generates interest only on the initial principal amount, while compound interest generates interest based on both the initial principal amount and all accumulated interest. Here's an example of how each works.

Say you put $10,000 in an account that earns 2% simple interest per year. In the first year you would generate $200 and end up with a total of $10,200. In year two, you'd earn another $200, bringing your total to $10,400.

If you put that same $10,000 in an account that earns 2% compound interest per year, in the first year you would generate $200 and end up with a total of $10,200. At the end of the second year, however, interest builds on the interest from the previous year, and now you earn money on the amount in your account rather than the initial principal alone. Therefore, the interest earned in that second year is $204, bringing your total to $10,404.

While the interest may not seem like much at first, it can add up over time, especially when you invest an additional amount each month. For example, if you invest that $10,000 in an account that generates 2% compound interest per year, and then invest an additional $400 per month, your initial investment would grow to $214,943.55 after 30 years. In another 10 years, you would have $315,141.32. With compound interest, time is your friend, so the earlier you can start saving, the better.

Note: *This hypothetical example of mathematical compounding is for illustrative purposes only and does not represent any specific investment. Actual results may vary.*