Financial Fitness

Duncklee & Nott Monthly Newsletter

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Hi friends and clients!
Be sure to check your mailboxes for our paper newsletter. We've gone with a new format to spruce it up a little and we hope you like it! Also, be sure to read about the upcoming summer events, such as a private Duncklee & Nott charter harbor cruise, the Duncklee & Nott Open golf tournament, and our upcoming open house and shredding party. Check the paper newsletter for details, or give us a call.
Have a great start to your summer, and enjoy this month's articles!

Jim, Ken, Megan, Sharon, & Susie

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It's Complicated: Money and Happiness

Does more wealth lead to more happiness? Researchers have tackled this question for decades, and although the results have differed, one fact is certain: The relationship between money and happiness--or "well-being," as many researchers put it--is complicated.

Think before you spend

In their book, *Happy Money: The Science of Smarter Spending,* Professors Elizabeth Dunn and Michael Norton summarize their own and others' research. What they found is that it's not necessarily how much you make that matters to overall happiness (although that certainly contributes), but what you do with your money. They boiled down the findings to five "key principles of happy money."

1. Buy Experiences. Investing in memories can result in a more sustained level of happiness than buying a bigger house, a more luxurious car, or other material goods. Buying the latest technological gadget might elicit the kind of joy of a child experiences opening a new toy on the holidays, but just like that new toy, the gadget loses its novelty with time--a principle psychologists refer to as "hedonic adaptation." On the other hand, experiences--even those that are fleeting or may initially provoke trepidation, such as hang gliding--create memories that help foster prolonged contentment.

2. Make It a Treat. While you're investing in those experiences, be sure to spread them out so they don't become expectations or habits. In this way, the novelty of each new experience will be fully realized. As the book says, "Abundance is the enemy of appreciation." This is also true with something as simple as a cappuccino. If you make it a daily ritual, it becomes a habit. If you instead substitute your daily coffee once a week with a froth-covered treat, then it becomes a reward to savor.

3. Buy Time. According to Dunn and Norton, individuals should ask themselves the question, "How will this purchase change the way I use my time?" For example, will it allow you to spend more time with your friends or family, or create more "to-dos" to clog your list? Will it free you up to participate in more activities you enjoy? Investing in products or services that allow you to spend time on the things you love will lead to greater overall well-being. And, say the authors, don't fall into the trap of putting a dollar value on your time, as this leads to increased stress levels. "Simply feeling like your time is valuable can make it seem scarce."

4. Pay Now, Consume Later. Paying for a treat or experience up front, such as event tickets you buy months in advance, allows you to benefit from the extended pleasure of eager anticipation. With all due respect to Tom Petty, the waiting, it seems, may be the best part. Conversely, credit cards can be a dangerous, albeit convenient, financial tool, facilitating a "consume now, pay later" dynamic. One study cited in *Happy Money* found that all 30 people surveyed underestimated their monthly credit-card bills by a sizable average of nearly 30%.

5. Invest in Others. Regardless of your circumstances--wealthy or not, young or old--research finds that spending money on others leads to greater happiness than spending on oneself.

The danger zones

While some experts differ on whether higher incomes result in greater levels of happiness, they tend to agree on the following: Increasing debt levels are detrimental to happiness, and keeping up with the Joneses can lead to a general sense of dissatisfaction. Instead, actively managing debt while finding ways to appreciate what you already have on a day-to-day basis may help you make well-thought-out saving and spending choices that support your overall level of well-being.

Millennials vs. Boomers: How Wide Is the Gap?

Can you tell the difference between the attitudes of baby boomers and millennials when it comes to finances? Take this quiz and see.

Texting versus email (or even snail mail). Angry Birds versus Monopoly. "The Theory of Everything" versus "The Sound of Music." "Dancing with the Stars" versus "American Bandstand."

It's no secret that there are a lot of differences between baby boomers, born between 1946-1964, and millennials, who were generally born after 1980 (though there is disagreement over the precise time frame for millennials). But when it comes to finances, there may not be as much difference in some areas as you might expect. See if you can guess which generation is more likely to have made the following statements.

Boomer or millennial?

1) I have enough money to lead the life I want, or believe I will in the future.

2) My high school degree has increased my potential earning power.

3) I rely on my checking account to pay for my day-to-day purchases.

4) I consider myself a conservative investor.

5) Generally speaking, most people can be trusted.

6) I'm worried that I won't be able to pay off the debts that I owe.

The answers

1) Millennials. According to a 2014 survey by the Pew Research Center, millennials were more optimistic about their finances than any other generational cohort, including baby boomers. Roughly 85% of millennials said they either currently had enough to meet their financial needs or expected to be able to live the lives they want in the future; that's substantially higher than the 60% of boomers who said the same thing. Although a higher percentage of boomers--45%--said they currently have enough to meet their needs, only 32% of millennials felt they had enough money right now, though another 53% were hopeful about their financial futures. Source: "Millennials in Adulthood," Pew Research Center, 2014

2) Boomers. The ability of a high school education to provide an income has dropped since the boomers' last senior prom, while a college education has never been more valuable. In 1979, the typical high school graduate's earnings were 77% of a college graduate's; in 2013, millennials with a high school diploma earned only 62% of what a college graduate did. And 22% of millennials with only a high school degree were living in poverty in 2013; back in 1979, the figure for boomers at that age was 7%. Source: "The Rising Cost of Not Going to College," Pew Research Center, 2014

3) Boomers. Not surprisingly, millennials are far more likely than boomers to use alternative payment methods for day-to-day expenses. A study by the FINRA Investor Education Foundation found that millennials are almost twice as likely as boomers to use prepaid debit cards (31% compared to 16% of boomers). They're also more than six times as likely to use mobile payment methods such as Apple Pay or Google Wallet; 13% of millennials reported using mobile methods, while only 2% of boomers had done so. Source: "The Financial Capability of Young Adults--A Generational View," *FINRA Foundation Financial Capability Insights,* FINRA Investor Education Foundation, 2014

4) Millennials. You might think that with thousands of baby boomers retiring every day, the boomers might be the cautious ones. But in one survey of U.S. investors, only 31% of boomers identified themselves as conservative investors. By contrast, 43% of millennials described themselves as conservative when it came to investing. The survey also found that millennials outscored boomers on whether they wanted to leave money to their children (40% vs. 25%) and in wanting to improve their understanding of investing (44% vs. 38%). Source: Accenture, "Generation D: An Emerging and Important Investor Segment," 2013

5) Boomers. Millennials may have been around the track fewer times than boomers have, but their experiences seem to have given them a more jaundiced view of human nature. In the Pew Research "Millennials in Adulthood" survey, only 19% of millennials said most people can be trusted; with boomers, that percentage was 31%. However, millennials were slightly more upbeat about the future of the country; 49% of millennials said the country's best years lie ahead, while only 44% of boomers agreed.

6) Millennials. However, the difference between the generations might not be as significant as you might think. In the FINRA Foundation financial capability study, 55% of millennials with student loans said they were concerned about being able to pay off their debt. That's not much higher than the 50% of boomers who were worried about debt repayment.

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Why Businesses Need a Disaster Preparedness Program

Do you and your employees know what to do following a disaster to minimize business disruption? When it comes to disaster planning, ensuring you have proper insurance coverage may be just the beginning.

According to the Insurance Information Institute, 119 natural disasters occurred in the United States in 2014, totaling $25 billion in losses. But natural disasters represent just a portion of the crises that your business could face. Although you may not be located in an area prone to hurricanes, blizzards, tornadoes, floods, earthquakes, mudslides, and wildfires, you still need to consider the potential for power outages, civil unrest, terrorism (including cyberterrorism), fire, data breaches, and illness epidemics. What risks and hazards might your business face?

Approximately 40% to 60% of small businesses never recover from a disaster, reports preparemybusiness.org, a website created by the Small Business Administration (SBA) and Agility Recovery, an organization that helps businesses prepare for disasters and manage emergencies when they strike. For this reason, it is in the best interest of every business to identify potential risks and develop a plan to address them--before a crisis hits. Fortunately, many resources are available to assist business owners in developing a disaster preparedness program.

Where to start

Following are five steps that will help you create a disaster preparedness program, as outlined by ready.gov, a national public service campaign designed to educate Americans about preparing for and responding to natural and man-made disasters.

Step 1: Program Management. Although there are often minimum regulations that govern how certain businesses manage risk, as a business owner you will need to determine whether the minimums are enough. As ready.gov states, "Many risks cannot be insured, so a preparedness program may be the only means of managing those risks." Management commitment to a preparedness program, as well as a written preparedness policy and oversight committee, may be critical to ensuring your business's longevity.

Step 2: Planning. This step should include the creation of a "risk assessment" that identifies all potential risks and hazards for your business, with ideas for mitigating their impacts. It should highlight threats and hazards that are considered "probable," as well as any that could cause injury, property damage, business disruption, or environmental impact. Another critical document is the "business impact analysis," which details sensitive or critical processes, as well as the financial and operational impacts that would occur due to disruption of those processes.

Step 3: Implementation. In this step, committee members identify and assess resources, draft written plans, develop a system to manage incidents, and train employees as needed. Several key documents contribute to successful program implementation, including crisis communications, emergency response, and business continuity plans.

Step 4: Testing & Exercises. In order to evaluate the program's effectiveness, including the success of employee training, management should run tests and drills to see what works and note opportunities for improvement.

Step 5: Program Improvement. During testing or an actual incident, weaknesses in the program are likely to be revealed. They should be documented, along with lessons learned and strategies for addressing such problems in the future.

Other resources

The Small Business Adminstration (sba.gov) offers a number of resources designed to help small businesses shore up their emergency preparedness, including links to templates and worksheets that will help you gather the data you need to put together the various written documents. At this website, you can also find links to information about the SBA's own "Disaster Preparedness and Recovery Plan," which provides details on assistance the SBA offers after a disaster strikes.

American Red Cross Ready Rating™ (readyrating.org) is a self-guided online program designed to help member businesses, organizations, and schools assess their level of emergency preparedness. The core of the program is a 123-point self-assessment that is used to gauge one's level of preparedness. Members also have access to a variety of online tools and resources to help create and refine a disaster preparedness plan.

At preparemybusiness.org, the site mentioned above, business owners will find downloadable educational information, an archive of helpful webinars, and links to many of the other resources mentioned here.

Finally, the Insurance Institute for Business & Home Safety (disastersafety.org) offers a variety of resources, including research reports and an online tool that allows you to enter your Zip code and receive information about specific risks in your area.

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How important are dividends in the S&P 500's total returns?

In a word, very. Dividend income has represented roughly one-third of the total return on the Standard & Poor's 500 index since 1926.*

According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s--in other words, more than half that decade's return resulted from dividends--to a low of 14% during the 1990s, when the development and rapid expansion of the Internet meant that investors tended to focus on growth.*

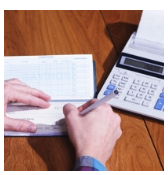
And in individual years, the contribution of dividends can be even more dramatic. In 2011, the index's 2.11% average dividend component represented 100% of its total return, since the index's value actually fell by three-hundredths of a point.** And according to S&P, the dividend component of the total return on the S&P 500 has been far more stable than price changes, which can be affected by speculation and fickle market sentiment.

Dividends also represent a growing percentage of Americans' personal incomes. That's been especially true in recent years as low interest rates have made fixed-income investments less useful as a way to help pay the bills, In 2012, dividends represented 5.64% of per capita personal income; 20 years earlier, that figure was only 3.51%.*

Note: *All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. Investing in dividends is a long-term commitment. Investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. A company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.*

*Source: "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices," Standard & Poor's, September 2013

**Source: www.spindices.com, "S&P 500 Annual Returns" as of 3/13/2015



Are stock dividends reliable as a source of income?

Dividends can be an important source of income. However, there are several factors you should take into consideration if you'll be relying on them to help pay the bills.

An increasing dividend is generally regarded as a sign of a company's health and stability, and most corporate boards are reluctant to cut them. However, dividends on common stock are by no means guaranteed; the board can decide to reduce or eliminate dividend payments. Investing in dividend-paying stocks isn't as simple as just picking the highest yield; consider whether the company's cash flow can sustain its dividend, and whether a high yield is simply a function of a drop in a stock's share price. (Because a stock's dividend yield is calculated by dividing the annual dividend by the current market price per share, a lower share value typically means a higher yield, assuming the dividend itself remains the same.)

Also, dividends aren't all alike. Dividends on preferred stock typically offer a fixed rate of return, and holders of preferred stock must be paid their promised dividend before holders of common stock are entitled to receive theirs. However, because their dividends are predetermined, preferred stocks typically behave somewhat like fixed-income investments. For example, their market value is more likely to be affected by changing interest rates, and most preferred stocks have a provision allowing the company to call in its preferred shares at a set time or at a specified future date. If you have to surrender your preferred stock, you might have difficulty finding an equivalent income stream.

Finally, dividends from certain types of investments aren't eligible for the special tax treatment generally available for qualified dividends, and a portion may be taxed as ordinary income.

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