6195 W. Quaker St., Orchard Park, NY 14127 // 716.662.4361
www.moldenhauerassociates.com

MOLDENHAUER & ASSOCIATES

JUNENEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

My first job out of college was in Charlotte. I loved my time there. It was a young, energetic and exciting city. The problem was that my job required me to travel nearly every week. Don't get me wrong, it was a fun job, and I was fortunate to work with great people that I learned a lot from. It was exciting to be on the road. See new places. Meet new people, and experience different cultures. After a while though, traveling so much for work really burned me out.

The solution was easy…as soon as I could afford to, I would schedule vacation. It was exciting to think about where I would go, what I would do, and who I would be traveling with. Many of my trips, at the time, seemed to revolve around fishing. How could I not get excited? Those trips became the reason to make it through the day. As a young adult, the vacations were pretty much the only thing I looked forward to.

I find myself waiting a lot these days. For example, I'm looking out my window thinking about how wonderful it will be when the rain stops and we get weather that somewhat resembles summer. I wait for the next activity to drive my children to, or I wait for their practice to finish. I look forward to getting home and being able to finally relax for the evening.

A funny thing happens though when I get home. Either I convince myself that I am too tired to do anything other than sit down and watch TV, or I feel unfulfilled and start tinkering around on different projects. Sitting still is difficult for me, and when I do, it's also very unsatisfying. I think I need the chaos. I need the motion. I thrive when I'm being productive or making progress on a task.

This all brings me back to the reason I was writing about vacations earlier. My father identified and coached me to be aware that if my life focused on getting to, and being on vacation, I would be missing out on most of the things that make life worth living. It's the old "it's the journey, not the destination" thing. We need chaos in life; we need action, goals and purpose. A better approach is to think of it as "doing", not waiting.

This relates to many of the conversations we've been having this year. Some people express concern over not knowing what they'll do in retirement, yet they look forward to it. Some people are uncomfortable with the state of the world, but they're optimistic. For me personally, I think there is a lot to be excited about as the future continues to unfold. More importantly, I'm reminded that the journey is what really matters. That is where life is lived…in the trenches, so to speak; the tears, the smiles, the laughs, the times we look back on, but we're too focused on the future to appreciate the moment. Life is about the obstacles we face and then overcome. The challenges we must conquer that gives us the confidence for life's next challenge. If we can learn to appreciate the journey, then maybe the destination will not be that important??

Brett Moldenhauer

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HOW TO CREATE A PERSONAL FINANCIAL STATEMENT

Similar to a company's financial statements, a personal financial statement can help you assess your financial health and assist you in budget planning. It can also give you an idea of the kinds of information that banks and other lenders use to determine your ability to repay loans. Curious to know where you stand? Here, we show you how to get a handle on your finances by creating a personal financial statement.

Your personal financial statement

A personal financial statement consists of two parts: a net worth statement and a cash flow statement.

Net worth statement. To create your net worth statement, start by listing all your assets at their fair market value, in order of how easily they can be converted into cash. It's helpful to group assets into three categories: cash or cash equivalents, invested assets (your investment portfolio), and use assets (your home, furniture, automobiles, and so on). Then, list your liabilities—what you owe—in order of their maturity date. Be sure that your list of liabilities agrees with the credit bureaus' reports. Now, subtract your liabilities from your assets to determine your net worth. For you to be considered solvent, your liabilities should represent no more than 90 percent of your assets.

Cash flow statement. The second part of your personal financial statement is your cash flow statement. It compares funds coming into your household, such as salary and investment income, with money going out, including savings and expenses. Tally these numbers for a certain period of time (a month is a good place to start), and then calculate the difference between your cash inflows and your cash outflows. A negative cash flow statement indicates that you can't cover your expenses for that period without dipping into your cash savings and investments.

What do lenders typically look for?

While credit history is important, lenders look for sufficient stable income to support loan payments and sufficient collateral to back your promise to repay the loan. Liquid assets have the most weight, and lenders will typically adjust the estimated value of hard-to-sell assets on your net worth statement. Here's how different types of assets tend to fare in lenders' eyes:

- **Cash:** An emergency fund is an important part of any financial plan, and it can be particularly helpful when applying for a mortgage or other major loan. The typical target is enough liquid assets to replace three to six months of expenses.
- **Investments:** Typically, a lender will look for 15 percent of your portfolio to be invested in marketable securities. Note that a large percentage of margin account securities may raise a red flag in the mind of a loan officer.
- **Closely held businesses:** A lender may adjust the value of a business that is solely dependent on you. Lenders may also discount the value of minority shares because of their illiquidity. Restricted or control stock is considered unavailable as collateral and will be taken off your net worth statement.
- **Real estate:** A lender will adjust the value of real estate based on taxes and other costs if the property has to be liquidated.
- **Notes receivable:** As an asset, notes are only as valuable as the guarantor and may not be taken at their notational value.
- **Personal use property:** Automobiles, boats, furniture, and other personal possessions may have liquidation value but are easy to hide from creditors. Consequently, most lenders will reduce their value on your net worth statement.
- **Life insurance:** For estate purposes, life insurance is listed at its death benefit amount. For other purposes, it is listed at its cash surrender value. A large life insurance loan, while not subject to repayment during your life, indicates a possible liquidity problem.

Lenders will also look closely at your debt-to-income ratio to ensure that you aren't taking on a mortgage you can't afford. To calculate this ratio, divide your total recurring monthly debt costs by your monthly gross income. As a general rule, your debt-to-income ratio must be below 43 percent. Note that lenders will still make loans to borrowers with higher debt-to-income ratios, such as retirees, if other factors justify the risk, such as a high level of assets.

Your personal financial ratios

Together with your personal financial statement, financial ratios can help you analyze your ability to take on debt—or determine whether you have more debt than you can afford. Here are some of the more helpful calculations:

Liquidity ratio. One financial rule of thumb is to maintain an emergency fund comprising:

- Three months of fixed expenses or
- Six months of fixed and variable expenses

Keep in mind that it's possible to overfund an emergency fund. You should guard against keeping more than 120 percent of your six-month expense estimate in low-yielding investments. And it's usually recommended that you hold no more than 5 percent of your cash reserves in a non-interest-bearing checking account.

Housing payment ratio. Nondiscretionary housing expenses—such as a mortgage, insurance, real estate taxes, and association fees—should be equal to or less than 28 percent of your monthly gross income.

Total payment ratio (debt ratio). A common mortgage lender standard—and a healthy personal finance target—is to keep all monthly loan and minimum credit card payments plus housing costs at or under 36 percent of your monthly income. Lenders' target debt ratios change with credit availability. Their typical requirement can range from 26 percent to 41 percent, depending on the lending environment and whether the loan will be insured by the Federal Housing Administration.

Consumer debt ratio. Discretionary debt includes credit card and automobile debts or leases. Your total discretionary debt should be less than 10 percent of your monthly gross income. A ratio of 20 percent indicates that you should not take on additional debt.

Savings ratio. There is no standard recommended savings rate. Your savings rate should depend on your age, goals, and life stage. As you get closer to retirement, your savings rate should increase. Direct deposits or electronic transfers can help you make saving a habit, but don't burn a hole in your pocket.

Saving to spend is a great alternative to taking on debt, but saving to invest can be just as exciting.

Presented by Brett A. Moldenhauer
Moldenhauer & Associates
6195 West Quaker Street | Orchard Park, NY 14127
716.662.4361 | 716.662.5509 fax
brettm@moldenhauerassociates.com

STAY ON TRACK: 10 TIPS FOR MIDYEAR FINANCIAL PLANNING

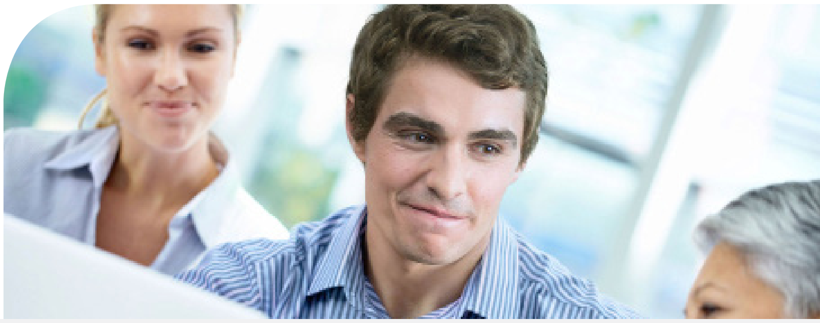
Although we all have the best intentions when we set financial goals each January, a lot can happen in 12 months to cause you to veer off course. Nobody wants to arrive at the end of the year and encounter a financial mess. One great way to keep yourself on a steady path to meeting your goals is to do a midyear check so you can make any necessary adjustments before things get out of hand. Use these 10 guidelines to ensure that your spending and investing are on track—and to avoid any surprises come December.

Look over your budget. This is the most basic step you can take to keep yourself on a path to financial health. Look at your spending through the middle of the year and determine whether you're right where you want to be, you need to cut back, or you have extra funds to spend on holiday gifts. Dozens of budgeting tools are out there to assist you in tracking your budget. Many have a digital platform where you can connect your accounts and track expenses. This pulse check provides an easy way to steer yourself back if you've strayed from your budget. And, if you haven't set a budget, this could be a good time to draft one and establish goals.

Reconsider your retirement contributions. Did you receive a raise during the first half of this year? If you're not maximizing your contributions to your 401(k), 403(b), IRA, or other retirement plan, and you have additional funds from your increased salary or bonus that allow you to contribute more, it may be worth considering a bump in your retirement allocation.

Assess tax withholdings. It's a good idea to check your tax withholdings midyear, especially if you've had major life events such as a job change or significant pay increases. The IRS has many tools that can assist in determining whether your tax withholdings are appropriate.

Rebalance your investment portfolio. The volatility at the beginning of a year, such as what happened in 2022, may have caused your investments to drift away from your strategy. This is a great time to look at your retirement plans and taxable accounts, rebalancing your portfolios to better align with your goals.



Adjust insurance policies, if necessary. Have you had changes in your life that would warrant additional insurance? If you haven't gotten around to adding insurance or increasing existing policies to account for marriage, having children, starting a business, buying a house, or other life events, use this midyear check to reevaluate your insurance needs.

Take stock of employee benefits. Be sure that you know when open enrollment for benefits occurs at your company and determine whether you need to make changes to your plans. This is also a good time to check on your FSA and HSA funds, submit receipts, and plan for how to use the remaining balance so you don't lose the money in your FSA.

Review your credit report. You're legally entitled to a free copy of your credit report every 12 months from each of the three national credit bureaus (Equifax, Experian, and TransUnion). Take advantage of that opportunity to check for fraud or mistakes so you can remedy any issues as quickly as possible.

Check your emergency fund. Unexpected expenses do come up, and it's prudent to have an emergency fund on standby to meet them. Without this money tucked away, you may have to take cash meant for other expenses or goals, or even accrue credit card debt to pay for expenses. Most experts agree that you should have three to six months of expenses in an emergency fund. Midyear is a great time to take stock of whether you've sufficiently saved for unexpected costs. If you're running a surplus on your budget, it makes good financial sense to use this surplus to ensure that your emergency fund is in good shape.

Be sure that your estate documents reflect your wishes. You likely won't need to revise your will, trust, living will, or other estate documents, but it's a good idea to review them annually and make sure that they still align with your desires. If you've experienced major life events such as marriage, divorce, or birth of a child, you may want to speak with an estate planning attorney to ensure that your documents are in good order and meet your current needs.

Set financial goals for the rest of the year. Take stock of where you started and where you are midway through the year. Six months is plenty of time for situations to change and goals to shift. If nothing has changed, ensure that you are staying on track with your initial objectives. If major changes have happened in your life, you may want to reassess your financial goals for the remainder of the year.

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716.662.4361 | 716.662.5509 fax
brettm@moldenhauerassociates.com

UPCOMING EVENTS:

OUR FINANCIAL PLANNING DINNER SEMINARS WILL RETURN IN THE FALL

Have a safe and enjoyable Summer!

We find that the best way to introduce new potential clients to our firm is when an existing client brings a friend to one of our seminars. As you know, these are information/educational events. We are not there to convince people that we are the only firm to consider working with. Rather, we do believe that our firm offers a quality opportunity for those people looking for a new advisor relationship. Please consider attending an upcoming seminar in your neighborhood with a friend. You may register for a seminar by calling 716-662-4361 or through our website at www.moldenhauerassociates.com.