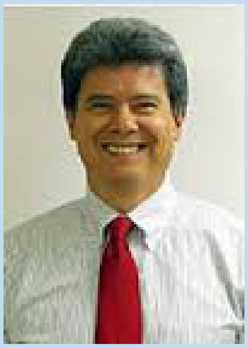
Interactive Financial Advisors

CARES Connection

Spring 2019



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In this edition of the Cares Connection, we discuss some important basics of personal finance. Remember when setting goals, everyone is different. We all face different challenges, time-frames, resources, risk tolerance, taxes, etc. However, there are some basics that apply to everyone: We all need the ability to respond to a financial emergency and we all need funds we can spend in the future (short and/ or long term). A review of you own personal financial situation should either make you feel comfortable (if you are where you want to be) or a little uneasy about not being on target. If you feel an additional opinion can help confirm a current strategy or perhaps offer additional ideas, please feel free to call the SJI team.

As always, thank you for allowing us to be a part of your financial life.
Hope you enjoy the Spring.

Bad Money Habits to Break

Behaviors worth changing.

Do bad money habits constrain your financial progress?

Many people fall into the same financial behavior patterns, year after year. If you sometimes succumb to these financial tendencies, now is as good a time as any to alter your behavior.

#1: Lending money to family & friends. You may know someone who has lent a few thousand to a sister or brother, a few hundred to an old buddy, and so on. Generosity is a virtue, but personal loans can easily transform into personal financial losses for the lender. If you must loan money to a friend or family member, mention that you will charge interest and set a repayment plan with deadlines. Better yet, don't do it at all. If your friends or relatives can't learn to budget, why should you bail them out?

#2: Spending more than you make. Living beyond your means, living on margin, or whatever you wish to call it – it is a path toward significant debt. Wealth is seldom made by buying possessions; today's flashy material items may become the garage sale junk of the future.

#3: Saving little or nothing. Good savers build emergency funds, have money to invest and compound, and leave the stress of living paycheck to paycheck behind. If you are not able to put extra money away, there is another way to get some: a second job. Even working 15-20 hours more per week could make a big difference.

#4: Living without a budget. You may make enough money that you don't feel you need to budget. In truth, few of us are really that wealthy. In calculating a budget, you may find opportunities for savings and detect wasteful spending.

#5: Frivolous spending. Advertisers can make us feel as if we have sudden needs; needs we must respond to, or ones that can only be met via the purchase of a product. See their ploys for what they are. Think twice before spending impulsively.

#6: Not using cash often enough. No one can deny that the world runs on credit, but that doesn't mean your household should. Pay with cash as often as your budget allows.

#7: Thinking you'll win the lottery. When the headlines are filled with news of big lottery jackpots, you might be tempted to throw a few bucks at a lottery ticket. It's important, though, to be fully aware that the odds in the lottery and other games of chance are against you. A few bucks once in a while is one thing, but a few bucks (or more) every week could possibly lead to financial and personal issues.

#8: Inadequate financial literacy. Is the financial world boring? To many people, it can seem that way. The Wall Street Journal is not exactly Rolling Stone, and The Economist is hardly light reading. You don't have to start there, however. There are great, readable, and even, entertaining websites filled with useful financial information. Reading an article per day on these websites could help you greatly increase your financial understanding.

#9: Not contributing to retirement plans. The earlier you contribute to them, the better; the more you contribute to them, the more compounding of those invested assets you may potentially realize.

#10: DIY retirement strategy. Those who save for retirement without the help of professionals may leave themselves open to abrupt, emotional investing mistakes and other oversights. Another common tendency is to vastly underestimate the amount of money needed for the future. Few people have the time to amass the knowledge and skill set possessed by a financial services professional with years of experience. Instead of flirting with trial and error, see a professional for insight.

Your Emergency Fund: How Much is Enough?

An emergency fund may help alleviate the stress associated with a financial crisis.

Have you ever had one of those months? The water heater stops heating, the dishwasher stops washing, and your family ends up on a first-name basis with the nurse at urgent care. Then, as you're driving to work, giving yourself your best, "You can make it!" pep talk, you see smoke seeping out from under your hood.

Bad things happen to the best of us, and instead of conveniently spacing themselves out, they almost always come in waves. The important thing is to have a financial life preserver, in the form of an emergency cash fund, at the ready.

Although many people agree that an emergency fund is an important resource, they're not sure how much to save or where to keep the money. Others wonder how they can find any extra cash to sock away. One recent survey found that 29% of Americans lack any emergency savings whatsoever.[1]

How Much Money? When starting an emergency fund, you'll want to set a target amount. But how much is enough? Unfortunately, there is no "one-size-fits-all" answer. The ideal amount for your emergency fund may depend on your financial situation and lifestyle. For example, if you own your home or provide for a number of dependents, you may be more likely to face financial emergencies. And if the crisis you face is a job loss or injury that affects your income, you may need to depend on your emergency fund for an extended period of time.

Coming Up with Cash. If saving several months of income seems an unreasonable goal, don't despair. Start with a more modest target, such as saving $1,000. Build your savings at regular intervals, a bit at a time. It may help to treat the transaction like a bill you pay each month. Consider setting up an automatic monthly transfer to make self-discipline a matter of course. You may want to consider paying off any credit card debt before you begin saving.

Once you see your savings begin to build, you may be tempted to use the account for something other than an emergency. Try to budget and prepare separately for bigger expenses you know are coming. Keep your emergency money separate from your checking account so that it's harder to dip into.

Where Do I Put It? An emergency fund should be easily accessible, which is why many people choose traditional bank savings accounts. Savings accounts typically offer modest rates of return. Certificates of Deposit may provide slightly higher returns than savings accounts, but your money will be locked away until the CD matures, which could be several months to several years.

The Federal Deposit Insurance Corporation insures bank accounts and certificates of deposit (CDs) up to $250,000 per depositor, per institution in principal and interest. CDs are time deposits offered by banks, thrift institutions, and credit unions. CDs offer a slightly higher return than a traditional bank savings account, but they also may require a higher amount of deposit. If you sell before the CD reaches maturity, you may be subject to penalties.[2]

Some individuals turn to money market accounts for their emergency savings. Money market funds are considered low-risk securities, but they're not backed by the federal government like CDs, so it is possible to lose money. Depending on your particular goals and the amount you have saved, some combination of lower-risk investments may be your best choice.[2]

Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market funds seek to preserve the value of your investment at $1.00 a share. However, it is possible to lose money by investing in a money market fund. Money market mutual funds are sold by prospectus.[2]

Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

The only thing you can know about unexpected expenses is that they're coming – for everyone. But having an emergency fund may help alleviate the stress and worry associated with a financial crisis. If your emergency savings are not where they should be, consider taking steps today to create a cushion for the future.

There is nothing noble in being superior to your fellow man; true nobility is being superior to your former self.

- Ernest Hemingway

Can you answer this riddle?

How far is it from March to June?

answer on page 4!

Learn About the Different Kinds of Loans

A loan is a lump sum of money that you borrow with the expectation of paying it back either all at once or over time, usually with interest. Loans are typically a fixed amount, like $5,000 or $15,000.

The exact amount of the loan and interest rate varies depending on your income, debt, credit history, and a few other factors. There are many different types of loans you can borrow. Knowing your loan options will help you make better decisions about the type of loan you need to meet your goals.

- Open-Ended and Closed-Ended Loans

Open-ended loans are loans that you can borrow over and over. Credit cards and lines of credit are the most common types of open-ended loans. Both of these loans have a credit limit which is the maximum amount you can borrow at one time.

You can use all or part of your credit limit depending on your needs. Each time you make a purchase, your available credit decreases. As you make payments, your available increases allowing you to use the same credit over and over as long as you abide by the terms.

Closed-ended loans are one-time loans that cannot be borrowed again once they've been repaid. As you make payments on closed-ended loans, the balance of the loan goes down. However, you don't have any available credit you can use on closed-ended loans. Instead, if you need to borrow more money, have to apply for another loan and go through the approval process over again. Common types of closed-ended loans include mortgage loans, auto loans, and student loans.

- Secured and Unsecured Loans

Secured loans are loans that rely on an asset as collateral for the loan. In the event of loan default, the lender can take possession of the asset and use it to cover the loan. Interests rates for secured loans may be lower than those for unsecured loans.

The asset may need to be appraised to confirm its value before you can borrow a secured loan. The lender may only allow you to borrow up to the value of the asset. A title loan is an example of a secured loan.

Unsecured loans don't require an asset for collateral. These loans may be more difficult to get and have higher interest rates. Unsecured loans rely solely on your credit history and your income to qualify you for the loan. If you default on an unsecured loan, the lender has to exhaust collection options including debt collectors and a lawsuit to recover the loan.

- Conventional Loans

When it comes to mortgage loans, the term "conventional loan" is often used. Conventional loans are those that aren't insured by a government agency like the Federal Housing Administration (FHA), Rural Housing Service (RHS), or the Veterans Administration (VA). Conventional loans may be conforming, meaning they follow the guidelines set forth by Fannie Mae and Freddie Mac. Non-conforming loans don't meet Fannie and Freddie qualifications.

- Loans to Avoid

Certain types of loans should be avoided because they are predatory and take advantage of consumers. Payday loans are short-term loans borrowed using your next paycheck as a guarantee for the loan. Payday loans have notoriously high annual percentage rates (APRs) and can be difficult to pay off. If you're in a financial crunch, seek alternatives before taking out payday loans.

Advance-fee loans aren't really loans at all. In fact, they're scams to trick you into paying money. Advance-fee loans use different tactics to convince borrowers to send money to obtain the loan, but they all require that the borrower pay an upfront fee to obtain the loan. Once the money is sent (usually wired), the "lender" typically disappears without ever sending the loan.

Quarterly Economic Data for Q1 2019

Quarter in Brief

The strongest first quarter for stocks in 21 years featured all kinds of news. Central banks revised their outlook on monetary policy, seeing less robust economies in 2019. Faint glimmers of progress emerged in the U.S.-China trade dispute. Concerns over near-term corporate earnings and bond yields grew. The possibility of a "hard" Brexit loomed in Europe. The real estate market showed signs of heating up again. As the closing bell rang on the last trading day of March, the Standard and Poor's 500 notched a 13% gain for the first three months of the year.[1]

Domestic Economic Health

Late last year, the Federal Reserve was forecasting two interest rate hikes for 2019 and maintaining a fairly hawkish outlook. On March 20, the central bank veered away from all that. It cut its 2019 growth forecast for the economy by 0.2% to 2.1%, indicated it would not raise interest rates this year, and projected just one quarter-point hike through 2021. At a press conference immediately after the release of the March policy statement, Fed Chairman Jerome Powell shared his view that the "growth of economic activity has slowed," but he added that Fed policymakers did not foresee a recession developing.[2]

The financial markets reacted swiftly. Demand for longer-term Treasury notes rose. By March 22, the yield on the 10-year Treasury had fallen dramatically, to the point where the yield on the 2-year Treasury exceeded it. (Bond yields fall when bond prices rise.) Economists refer to this as an inverted yield curve. Some economists see an inverted yield curve as a recession signal, while others disagree. The sudden flight to longer-term Treasuries did seem to reflect a lessening of risk appetite among institutional investors. Just six days after the Fed made its pivot, the CMEGroup's FedWatch Tool, which tracks market expectations about interest rate changes, gave the Fed a 71.7% chance of making an interest rate cut by the end of the year.[3,4]

Some of the incoming data during the quarter seemed to correspond with the Fed's revised assessment of the economy, but some did not. (Some was actually delayed as an effect of the federal government shutdown that carried into late January.)

Riddle answer:

A single spring

Domestic Economic Health cont.

Inflation pressure eased. In October, the Consumer Price Index showed a 2.5% annualized advance. By February, inflation was running at just 1.5%.[5]

Job creation surged, then fell off. There were 311,000 net new jobs in January, but just 20,000 in February. From January to February, though, the unemployment rate declined from 4.0% to 3.8%, and the broader U-6 rate, encompassing the underemployed, dropped from 8.1% to 7.3%. (The federal government shutdown may have affected some of the above numbers.)[6]

The quarter also ended with the Bureau of Economic Analysis downgrading fourth-quarter gross domestic product (GDP). The prior estimate was 2.6%; the revised estimate was 2.2%.[7]

One important consumer confidence gauge rose and fell during the quarter: the Conference Board's index declined sharply to 124.1 in March, after hitting a 3-month peak of 131.4 in February. The University of Michigan's consumer sentiment index performed better: it started the quarter with a drop of 7.1 points in January, but by late March, it was at 98.4, a tenth of a point above where it was in December.[8,9]

The Institute for Supply Management's monthly purchasing manager index, following manufacturing activity, was nowhere near 60 (a level it reached last summer), but remained well above 50 (the mark delineating sector expansion from industry contraction). ISM's manufacturing PMI was at 56.6 in January, 54.2 in February, and 55.3 in March.[10]

Global Economic Health

Financial markets worldwide breathed a collective sigh of relief as the trade dispute between the U.S. and China eased. Negotiations between the two nations continued during the quarter, but no deal emerged. While some trade analysts see an agreement being reached in the second quarter, there are doubts that such an accord will resolve the issue at the center of the tariff fight – the concern that Chinese firms are using their technologies to steal U.S. intellectual property. In March, President Trump said that he would prefer leaving 25% tariffs on $50 billion of Chinese products in place, even if a new trade deal was forged.[11]

The quarter ended without a Brexit or even an accepted Brexit path – with the United Kingdom facing a potentially unpleasant outcome. The revised Brexit deal, which Prime Minister Theresa May brought to Parliament, was rejected for a third time in late March, raising the possibility of the U.K. leaving the European Union on April 12 without any kind of defined trade agreement. The European Central Bank surprised financial markets in early March with a decision to revive some of the economic stimulus measures it had recently ended, and it also indicated that would leave interest rates unchanged until at least 2020. The latest forecast from the Organization for Economic Cooperation and Development (OECD) projects only 1% growth for the eurozone this year and less than that for the economies of Germany, Japan, and the United Kingdom.[12,13]

Citations and Disclosures

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Your Emergency Fund: How Much is Enough?
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