



February 2019 Newsletter

5 money mistakes and how to avoid them

By Charles Sherry, MSc

Have you ever heard someone say that experience is the best teacher? Here's another one—there are no mistakes, just lessons.

Well, I would like to take a slightly different tack. Experience isn't the best teacher. *Someone else's* experience is. Learn from other peoples' mistakes and you can save yourself a lot of grief.

In that spirit, I'd like to review the biggest financial mistakes I've seen and offer you ways to avoid them.

1. Living paycheck to paycheck

Too many Americans don't have enough money in savings. According to CareerBuilder, nearly 80% of Americans live paycheck to paycheck to make ends meet. And lest you think this applies only to those who are in low-wage positions, nearly one in ten workers who earn over \$100,000 or more are in the same boat. (<http://press.careerbuilder.com/2017-08-24-Living-Paycheck-to-Paycheck-is-a-Way-of-Life-for-Majority-of-U-S-Workers-According-to-New-CareerBuilder-Survey>)

I'm shining a bright spotlight on this predicament in the wake of the recent government shutdown. During the closure, we were treated to a healthy dose of stories from federal employees who were running out of money after missing one or two paychecks. And many of these folks were guaranteed back pay and were offered plenty of assistance from banks and credit unions!

I'm not trying to minimize the frustration many of them experienced, but imagine what might happen during an extended period of unemployment.

Don't wait to start socking money away. Pay yourself by stashing away funds after each pay period. I would recommend at least three to six months of emergency funds. And I'd lean towards six months. A financial house that is in disorder is among the leading causes of stress. Savings will mitigate the emotional and mental burden.

2. You can't start too early saving for retirement

I've already broached the subject with my college-age daughter. So far, she seems less than enthusiastic. I get that. There are many other things she's focused on today. But when she graduates, the seed will have been planted, and she'll be mentally ready to sign up for her 401k.

I have a friend who is in his late 40s. He can probably retire comfortably by 60. Yet, he regrets waiting until 30 to begin putting money into a retirement account. What if he had started in his early 20s? The same holds true for another colleague who is 52. He's semi-retired today but wishes he had enrolled in his company plan before he turned 26. For most folks, that would be a minor regret.

We all know the reason earlier is better—it's the magic of compounding. Those deposits made in our 20s will have a lifetime to grow. Don't waste the chance to increase your savings now. You'll never get it back.

3. Do you know where your money goes?

Without a spending plan that tracks expenditures, you may wonder why there is month at the end of your money, and not money at the end of your month.

One of my closest friends from college can tell you how much he spent on gasoline in March 2001. That may sound extreme, but there are various guidelines you may use when setting up a plan.

Focus on the essentials—rent, mortgage, utilities. Leave room for your financial goals—repaying debts, retirement, emergency funds. And have some fun by budgeting for lifestyle choices—recreation, hobbies, vacation, and so forth.

If you are unsure how you might get started, your financial advisor can help you develop a spending plan that can help get your financial house in order.

Much of the data suggests the economy continues to expand, but one important reason the bull market is waking up from its late-year slumber is the Federal Reserve.

4. Credit cards and personal debt

Credit cards are a fantastic convenience and most pay some type of reward. But don't place yourself in bondage to monthly payments. Pay them off monthly or you will suffer from steep interest charges.

If you feel like you're buried under a mountain of credit card debt, an auto payment, student loans, and personal debt, you'll need a plan of attack. Talk to your advisor. It will be the best financial decision you ever made. Just knowing there's a roadmap to debt-free living will be liberating.

5. Those luxury purchases

That new car sure is fast, the ride is exceedingly quiet, and it has all the latest gadgets. But the new car smell will eventually wear off. The payments, however, won't. When looking for a new vehicle, what you don't know can hurt you. What is the gas mileage? Does it require an expensive grade of gasoline? What will it cost to insure? And what will the annual license renewal run?

If you can answer these questions and the payments comfortably fit into your budget, you'll sidestep any surprises that could crowd out your hobbies and financial goals.

A kinder, gentler Fed

December was a bad month for stocks. There's no way to sugarcoat it. Long-term investors recognize the need for disciplined approach, but that doesn't mean extreme levels of volatility won't create some degree of concern. I get it.

We touched a bottom on Christmas Eve, and shares extended gains into January. In fact,

the *Wall Street Journal* ran an article stating the S&P 500's advance last month was the best start to the year since 1987.

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In December, the Fed was talking about "gradual" rate hikes—possibly two this year. I placed gradual in quotes because that's how the Fed phrased its guidance.

In late January, just six short weeks later, the Fed said it can be "patient" as it ponders the direction of rates. Yes, that's right—the direction. When Fed Chief Jerome Powell was asked at his late-January press conference whether the next move in rates might be up or down, he didn't tip his hand. Instead, he said it all depends on the economic data.

At this point, the Fed's on hold—no more rate hikes, at least through the shorter term and maybe longer.

It's not that economic growth has stalled or even slowed considerably. The latest 300,000+ payroll number provided by the U.S. BLS would suggest the economy is not weakening.

But various surveys of consumer and business confidence have eased (University of Michigan survey, Conference Board, *Wall Street Journal*), and economic growth has slowed around the globe.

Throw in a cautionary signal from investors late last year (fears the Fed was poised to tip the economy into a recession if it continued to tighten the monetary screws), and the Fed shifted its stance.

Table 1: Key Index Returns

	YTD %	3-year* %
Dow Jones Industrial Average	7.2	14.9
NASDAQ Composite	9.7	16.4
S&P 500 Index	7.9	11.7
Russell 2000 Index	11.2	13.1
MSCI World ex-USA**	7.0	5.1
MSCI Emerging Markets**	8.7	12.3
Bloomberg Barclays US Aggregate Bond TR	1.1	2.0

Source: *Wall Street Journal*, *MSCI.com*, *Morningstar*

YTD returns: Dec. 31, 2018—Jan. 31, 2019

*Annualized

**in US dollars

Let me emphasize again that it is my job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.

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Foresters Financial Services, Inc. | 40 Wall Street | New York, NY 10005 | 800 423 4026 | foresters.com