

Money Priorities

Ohio Court Reporters Association

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Agenda – The Priorities

1. Saving Your Money
2. Bucket Choices
3. Investing Wisely
4. Finding Help
5. Questions

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Getting to Retirement - In Priority Order

It's Not Just About Investments!

1. Save Your Money...spend less than you make
2. Put Your Savings in the Right Buckets
3. Invest Your Savings Buckets Wisely

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Priority One – Save Your Money

Three Proven Steps to Success

1. Track Your Expenditures
2. Budget 3-5 Discretionary Expenditures
3. Use Cash to Pay for Them

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1. Track Your Expenditures

- Save Receipts
- Spending Ledger
- Excel
- Automate the Process...
 - Quicken
 - Bank Statements
 - Credit Card Statements
 - **Mint.com**



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2. Budget 2-4 Discretionary Items

You know these big hitters intuitively!.....

- Restaurants
- Socializing
- Vacations
- Clothes
- Groceries
- Cosmetics & hair
- “Toys” (usually guys)

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3. Use Cash for Budgeted Items

The Envelopes System

- An envelope of cash for each targeted item
- Keep it simple – 2-4 envelopes only
- Spend envelope cash for envelope expenditures
- When envelope's empty – spending stops
- Excess cash can be carried over (or saved)
- Replenish envelopes monthly or weekly

Mvelopes App

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Getting to Retirement in Priority Order

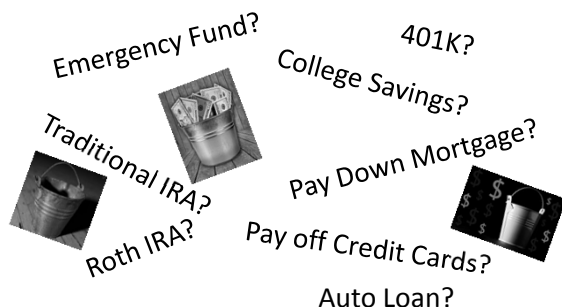
Getting to Retirement in Priority Order

1. Save Your Money...spend less than you make
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3. Invest your Bucket Money Wisely

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Which Bucket?



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Basic Buckets – In Priority Order

- A. Emergency Fund
- B. High Cost Debt
- C. Retirement
- D. College & Other

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A. Emergency Fund

- 6 -12 Months of Spending Needs
- Same as Your Age
- Bullet Proof!
- Use Internet Banks
- Automate Your Savings



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B. High Cost Debt

1. Credit Cards
2. Auto Loans
3. Student Loans
4. Home Equity Lines
5. Mortgage – refinance?

Paying off debt is like making an investment that yields a rate of return equal to the loan rate...

WITHOUT RISK!

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Two Important Points About Debt

1. Paying off debt is like making an investment that yields a rate of return equal to the loan rate... **WITHOUT RISK!**
2. Paying ahead on your mortgage is not always a good bucket choice

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Managing Debt

The Debt Snowball

1. Pay minimums on all loans except one
2. Direct all excess cash to that one loan
3. When that loan's gone, attack the next
4. Continue...

Smallest balance or highest interest rate?

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C. Retirement Savings

- 401k or 403b
- Traditional IRA
- Roth IRA
- SEP
- SIMPLE

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IRAs – A Special Tax Bucket

Savings - Taxable

Checking Account
Internet Bank Account
Brokerage

Savings - Tax Deferred

Company 401k

Roth IRA

Traditional IRA

College 529

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IRA Basics

1. IRAs are a type of **ACCOUNT**, not a type of investment
2. IRAs are available through
 - Brokers
 - Insurance Companies
 - Banks
 - Mutual Fund Companies
3. IRA contributions can be invested in...virtually anything
 - Stocks
 - Mutual Funds
 - CDs
 - Bonds
 - But no collectibles

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A Quick IRA Comparison

	<u>Traditional</u>	<u>Roth</u>
Maximum 2016 Contribution*	\$5,500	\$5,500
Deductible	Yes**	No
Taxed While Invested	No	No
Taxed on Withdrawal	Yes***	No
Age 70 ½ Required Distributions	Yes	No

* Add \$1,000 if you're 50 or older

** Below certain income levels

***Pre-tax dollars only

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Alternatives for Self-Employed

- SEP (Simplified Employee Pension)
- SIMPLE (Savings Investment Match Plan for Employees)
- Solo 401k

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Getting to Retirement in Priority Order

Getting to Retirement in Priority Order

1. Save Your Money...spend less than you make
2. Put Your Savings in the Right Buckets
3. **Invest your Bucket Money Wisely**

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D. College & Other

College 529 Plans

- Ohio College Advantage
- \$2,000 State (not federal) tax deduction
- State & federal tax-free growth
- Tax-free withdrawals if for college
- Taxes & penalty otherwise

Remember...this is Priority D!

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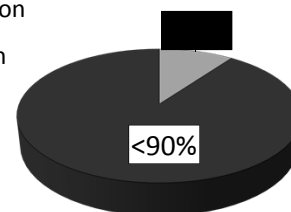
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Components of Investment Performance

■ Security Selection

■ Asset Allocation

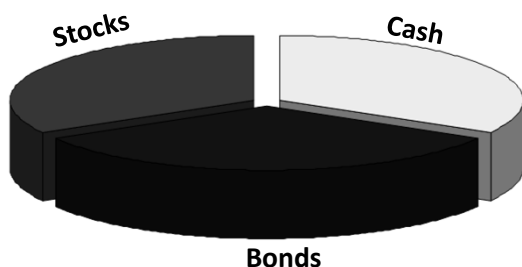
Stocks
Bonds
Cash



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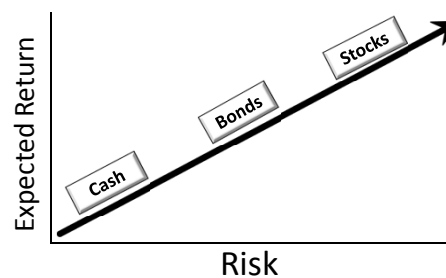
Asset Allocation At It's Most Basic Level



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The Risk/Return Relationship



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What's Your Risk Tolerance?

Are You a Risk Seeker?



Or a Risk Avoider?



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Active vs. Passive

Actively Managed Funds

Attempt to **beat** an index or a market benchmark
Average Expense Ratio: ~ 1 %

Passively Managed Funds

(Index Funds, ETFs)
Attempt to **mirror** an index
Average Expense Ratio: ~.15%

Examples of Some Indexes

- S&P 500 Index (500 large stocks)
- Dow Jones Industrial Index (30 stocks)
- MSCI World Index (6,000 international stocks)
- Lehman Aggregate Bond Index (US Investment-Grade Bonds)

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Do Operating Expenses Matter?

UBETCHA!



	Actively Managed	Index Fund
Initial Investment	\$100,000	\$100,000
Annual Return (before expenses)	6%	6%
Years Invested	30	30
Expense Ratio	1.0%	.15%
Expense in Year One	\$1,000	\$150
Ending Value	\$411,600	\$550,500
Advantage from Lower Expenses		\$138,900

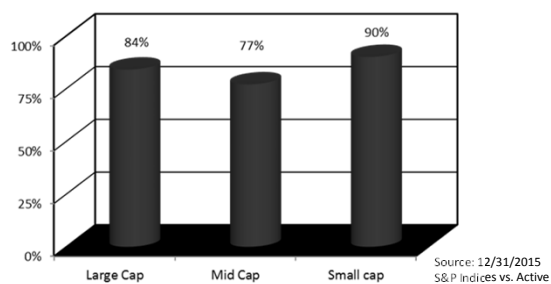
From Reinvestment of Operating Expense Savings

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% of Active Equity Funds Outperformed by Benchmarks

5 Years Ended 12/31/2015



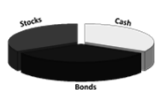
Source: 12/31/2015 S&P Indices vs. Active Funds Scorecard

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The Passive Investment Approach

	Target
Cash & Equivalents	X%
Domestic Stocks	X%
International Stocks	X%
Bonds	X%
Total	100%

1. Determine the appropriate Asset Allocation
2. Achieve it as inexpensively as possible using index funds
3. Rebalance periodically
4. Keep it Simple!



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Some Recommended Reading On Passive Investing

1. The Investment Answer; Goldie & Murray
2. Winning the Loser's Game; Charles D Ellis
3. The Only Guide to a Winning Investment Strategy You'll Ever Need; Larry E Swedroe
4. All About Index Funds; Richard Ferri, CFA

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In Summary...

1. Save Your Money...spend less than you make
2. Put Your Savings in the Right Buckets
3. Invest your Bucket Money Wisely

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Getting Help



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Choosing an Advisor Key Considerations

1. Compensation Method
2. Qualifications
3. Fiduciary Standard of Practice
4. Comprehensive Services
5. "Chemistry"

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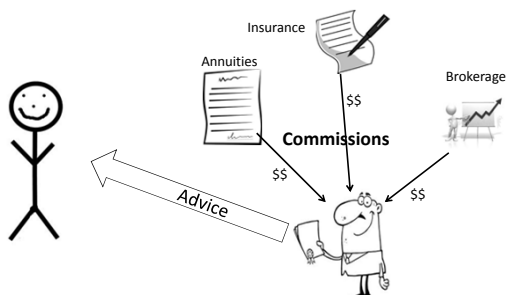
Basic Compensation Methods

1. Commissioned
2. Fee-Based
3. Fee-Only

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Commission-Based Advisor

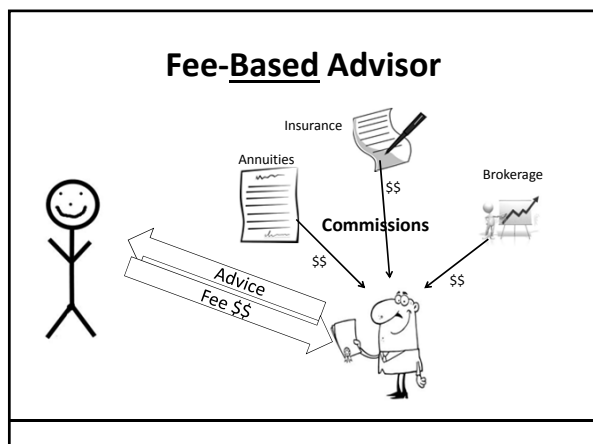


Commissioned

- Advisor is paid when client initiates a transaction (buys something)
- Examples: Load mutual funds, annuities, life insurance
- Brokers, Banks, Insurance Agents, Financial Planners

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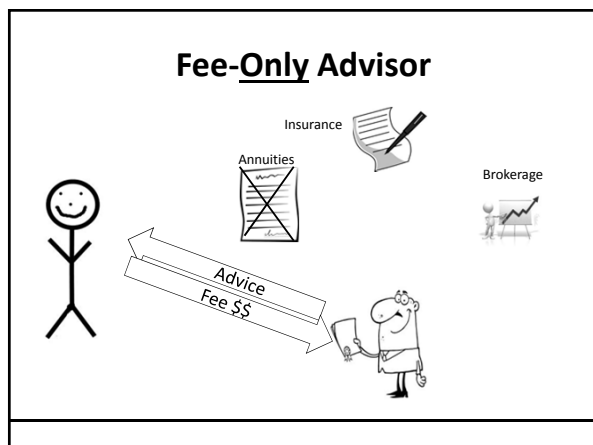
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Fee-Based

- Manage your money for a fee, or charge a fee for a financial plan
- PLUS commissions for load funds, mutual funds, annuities, life Insurance, etc.
- Financial Planners, Banks, others

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Fee Only

- No commissions or product sales
- Compensation based on
 - a) Percent of assets managed or
 - b) Fixed fee or fixed retainer
- Financial Planners

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Qualifications

1. Certified Financial Planner - CFP®
 - Comprehensive education
 - Rigorous certification exam
 - Continuing education requirements
 - Ethics requirement
2. Experience
3. Other education or training



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Standard of Practice

fi·du·ci·ar·y [fi-doo-shee-er-ee]

The Advisor, at all times, places the interest of the client ahead of his or her own

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Two Standards of Practice

1. Registered Investment Advisor (RIA)

- Registered with the State or SEC
- **Fiduciary Standard**

2. FINRA Advisor*

- Self-Regulatory Body
- **Suitability Standard**

**Financial Industry Regulatory Authority*

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Offers Comprehensive Services

- Am I saving enough?
- Should I pay down my mortgage?
- Should I roll over my IRA?
- How can I reduce my taxes?
- Are my investments ok?
- How much insurance do I need?
- When should I begin Social Security?
- Etc.



Comprehensive financial planning is more than just investments

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Always Ask

- What are your qualifications, education?
- Will you act as a fiduciary?
- Specifically, how are your fees determined?
- How much will it cost?
- Do you offer comprehensive services, or just investments?

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Finding a Fee-Only Planner

Find-an-Advisor Web Sites

1. National Assoc. of Personal Financial Advisors (NAPFA)
2. Garrett Planning Network
3. Alliance of Cambridge Planners

Membership requirements for these organizations:

- Fee Only
- CFP
- Comprehensive Planning
- Code of Ethics

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Questions?

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