



**BARRISTER**

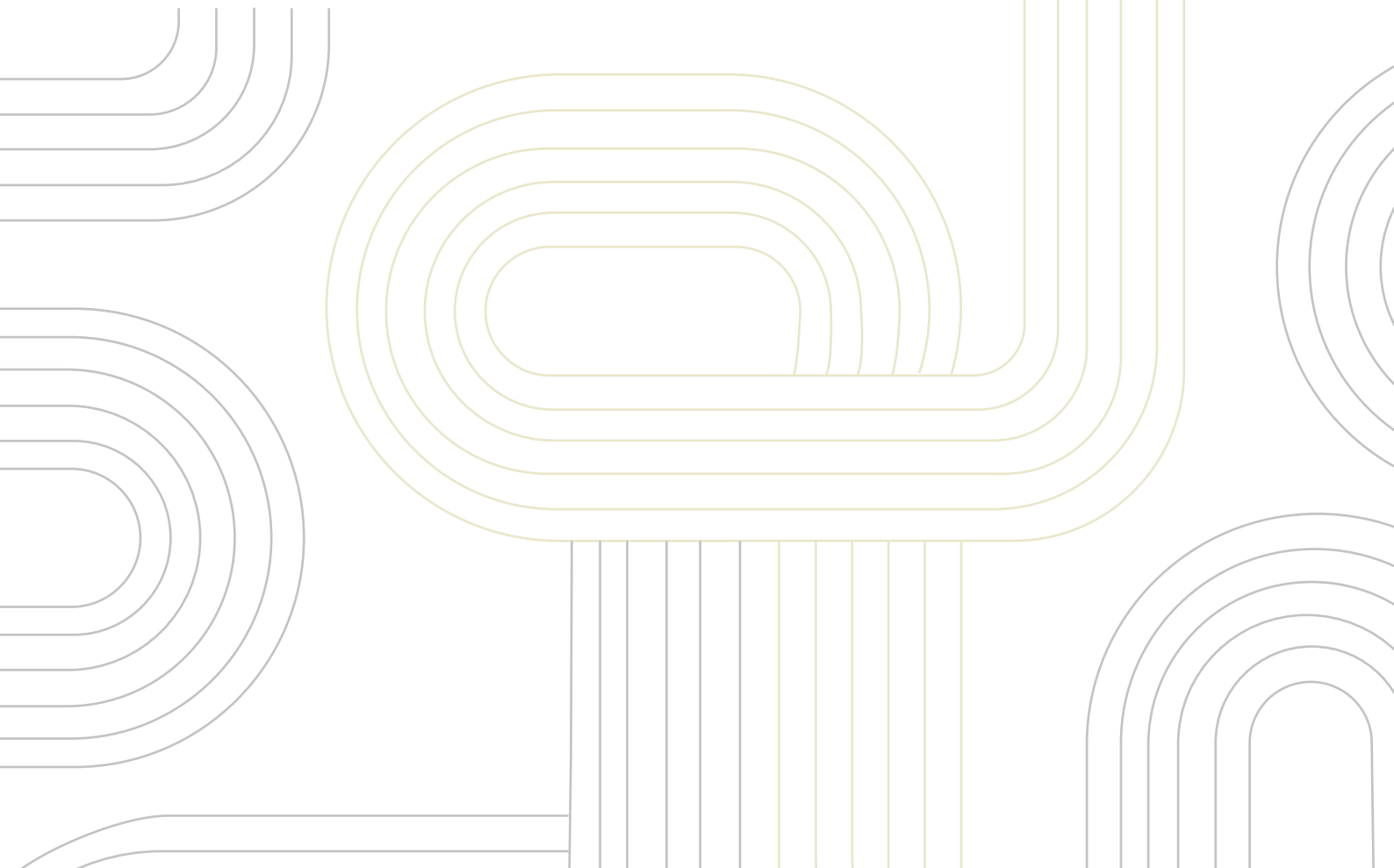
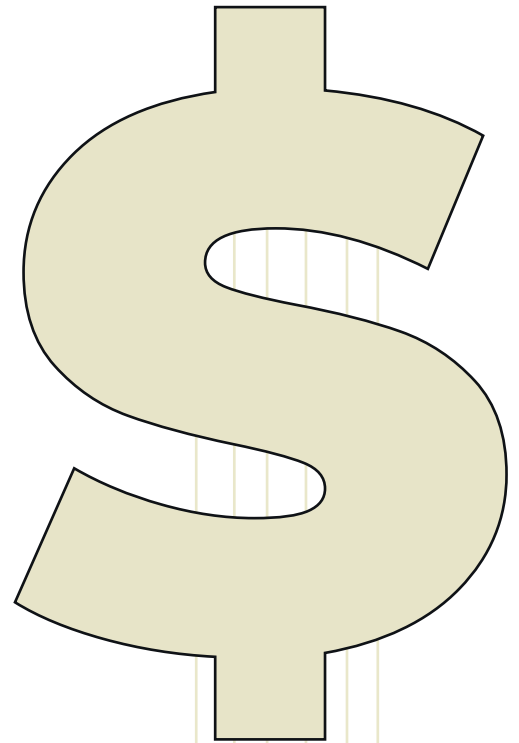
PLANNING | INVESTMENTS | INSURANCE

# THE FINANCIAL PLANNING GUIDE

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Simple strategies to building  
a sound financial plan and relieving  
money anxiety

BY CHARLES C. WEEKS JR., JD, CFP®



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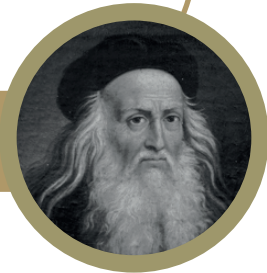
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Simplicity is the  
ultimate sophistication

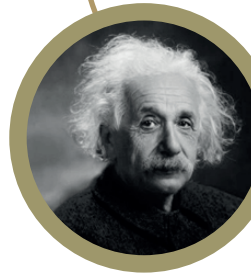
Leonardo da Vinci



“

Everything should be  
made as simple as  
possible, but not simpler

Albert Einstein



“

A little simplification  
would be the first step  
toward rational  
living, I think

Eleanor Roosevelt



“

KISS – Keep It  
Simple Stupid

Kelly Johnson



The following guide offers simple steps that can immediately improve your personal finances and relieve financial anxiety. Despite years and years of education it is very likely that you, like most people, lack financial literacy. It is unfortunate that we are taught so much in school, but little to nothing about arguably the most important subject that impacts our daily lives. The following guide will not make you rich, but it will do something even better, it will ensure you don't end up poor.






# Financial Statements

It would be impossible to achieve any financial goal without putting together a Balance Sheet and an Income Statement. Not having these two documents is like trying to use Waze, or MapQuest (for older readers) to get directions, but not knowing the address of where you currently are.

## BALANCE SHEET

The Balance Sheet is going to list Assets, Liabilities and Net Worth. Our Assets will be broken down further into Cash, Investments and Personal Use.

 <b>CASH</b>	 <b>INVESTMENTS</b>	 <b>PERSONAL USE</b>
<p>This is important to know because we need an Emergency Fund.</p> <p><b>INCLUDES:</b></p> <ul style="list-style-type: none"> <li>● Checking &amp; Savings</li> <li>● Money Market</li> <li>● CDs</li> </ul>	<p>Everything in this category will be used to achieve our financial goals.</p> <p><b>INCLUDES:</b></p> <ul style="list-style-type: none"> <li>● 401(k), 403(b), IRA</li> <li>● Brokerage Account</li> <li>● Active Real Estate</li> </ul>	<p>These are items that likely will not be used to achieve financial goals.</p> <p><b>INCLUDES:</b></p> <ul style="list-style-type: none"> <li>● Primary Residence</li> <li>● Jewelry &amp; Artwork</li> <li>● Autos</li> </ul>

Our liabilities include anything that we are obligated to pay back, for example mortgage loans, auto loans, margin on taxable accounts, credit cards, student loans, etc.

If our assets are worth more than the debt we owe, we will have a positive net worth. It is possible to have a negative net worth. Most college graduates, and especially graduates with advanced degrees, begin their careers with a negative net worth. Luckily as you earn money and save and invest and pay down debt net worth can increase. It can increase only if we save, invest intelligently and properly manage debt.

## INCOME STATEMENT

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The Income Statement includes all our income, including salary, bonuses, and investment income as well as savings and expenses. This should not be confused with a budget; a budget is forward-looking and it assumes: whereas the income statement is backward-looking and it includes actual cashflows. The Income Statement will give us a month-to-month or yearly view, to help us understand if we are saving enough or spending too much. Ideally every dollar of income will be used properly, and we will end with a small amount of discretionary (extra) cash flow at the end of the year.

The simple key to financial success lies with these two financial statements. Our Income Statement should illustrate that we are saving money and paying down any debt we hold. Those savings are going to be invested intelligently in appreciating and income producing assets. Those assets will help produce further income which will be invested and/or used to pay down debt. Over the years a positive net worth builds, this is the process of creating wealth. Unfortunately, the likelihood of the opposite happening is far greater. The Income Statement often reflects a negative cashflow, due to debt being piled-up because of overzealous spending and savings being invested without any investment strategy and over-trading.





# Insurance

Nobody likes insurance! You pay premiums for something you may never use, it feels like a waste of money, but it is arguably one of the most important aspects of financial planning. We must insure ourselves, our income, and our possessions. Let me explain why...

## Insuring Self

### HEALTH INSURANCE

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#### Why?

Most don't realize healthcare costs are the biggest cause of bankruptcy in our country. One catastrophic claim can ruin a family's finances, whereas proper insurance will protect current assets, future income, and savings.

#### Strategy

If you are relatively healthy it may be worthwhile to enroll in a High Deductible Health Care Plan (HDHP). With this type of plan, you accept high deductibles and max out-of-pocket limits, so you can pay low monthly premiums. Along with these lower premiums you also gain access to a Health Savings Account (HSA) which allows for pre-tax savings, tax-free growth, and if the funds are used for qualified medical costs, tax-free withdrawals.

Maybe the biggest benefit of the HSA is for high earners who can't make deductible contributions to IRAs; once you turn 65 you can use the funds for anything but must pay ordinary income tax on the withdrawals, just like an IRA. It is important to keep in mind that you should only enroll in this type of plan if you can afford the potential deductibles and the maximum out-of-pocket costs.

## LIFE INSURANCE

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### Why?

We don't buy life insurance for our own benefit, we buy it for those we love. The death benefit that will be paid out to your chosen beneficiary will allow them to replace the lost income from your premature death. It will allow them to maintain the same life they maintained while you were alive.

### Strategy

While there is no guarantee that future market investment returns will be similar to those in the past, the math suggests that buying term insurance will leave you with a higher net worth than a whole life policy. Term insurance is a very inexpensive way to cover the years when you need insurance. This allows you to invest more money in your retirement and taxable accounts which should grow at a higher rate of return than the cash value of a whole life insurance policy. So how much life insurance should you buy? Calculate the present value of how much you contribute to the family expenses over your remaining work life expectancy. For example, a 35-year-old, planning to retire at 65, and making \$200,000 that spends roughly half on themselves and income taxes, provides \$100,000 annually to their family, with an expected investment return of 6% would need \$1,459,072 of life insurance. If they were to pass at 35, their beneficiary would receive \$1,459,072 and invest that money earning 6% which would allow for full income replacement over 35 years.

## LONG-TERM CARE INSURANCE

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### Why?

According to Genworth's Cost of Care Survey, by 2031 the cost of a semi-private room in or around Philadelphia will cost \$184,439... per year... This type of unexpected annual cost, lasting over multiple years, will ruin even the best planned retirement.

### Strategy

Conventional long-term care insurance is expensive and usually sold with guaranteed renewable premiums, this means that your annual premiums can increase in the future. Unfortunately, there are many seniors who have paid into these policies for the past 20 years who are now receiving letters from insurance carriers saying their premiums are increasing to levels that make them unaffordable. We recommend hybrid life/long-term care policies. These are life insurance policies that also offer long-term care coverage, this allows for a fixed amount of premium paid for a guaranteed future death benefit and/or long-term care benefit. Also, some of these policies allow for a return of premium if you decide you no longer want the coverage or reach an age you don't believe you'll ever use it.

## Insuring Income & Savings

### DISABILITY INSURANCE

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#### Why?

According to the Social Security Administration the probability an insured worker born in 2001 becomes disabled before normal retirement age is 25%, while the probability of dying is 14%. Despite these statistics most people never purchase disability insurance. Furthermore, a disability can be more financially detrimental than a premature death because not only will there be lost income, but costs will likely rise due to disability-related spending.

#### Strategy

Disability insurance contracts, much like when ordering at a steakhouse, are offered à la carte. There are many different options you will need to choose from including the definition of disability, elimination period, benefit amount, coverage period, etc... The more specialized the job, the more important an own-occupation definition should be purchased as opposed to an any-occupation definition. For example, a pediatric heart surgeon, who due to disability, can no longer use their hands, would still be qualified to work as a pediatrician, despite now earning a much lower income. If this Doctor owned an own-occupation policy, they could work as a pediatrician AND collect a disability benefit based on their old, much higher, earnings. However, if they owned an any-occupation policy, they would receive nothing. The ideal disability policy will offer the proper definition based on your occupation, it will cover you at least till age 65, it will have an elimination period that matches your emergency savings account, covers 60% of your earnings and will adjust benefits upward with inflation. Finally, keep in mind that if your employer provides you with disability insurance, at no cost to you, the benefits that you receive will be taxed as ordinary income. If you purchase your own individual policy, you will pay the benefits with after-tax dollars making the benefits received tax-free.

### MALPRACTICE AND ERRORS & OMISSIONS INSURANCE

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#### Why?

There are roughly 20,000 medical malpractice claims filed each year, with the average claim in the hundreds of thousands of dollars. E&O insurance protects other professionals, such as CFPs.

#### Strategy

Typically employers provide malpractice and E&O insurance, this would be the case for W2, or salaried workers, as well as per diem work if you are employed by a 3rd party. However, if you set up your own company/practice you will be responsible for purchasing your own malpractice or E&O insurance.



## PERSONAL UMBRELLA INSURANCE

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### Why?

High income earners will not have enough liability protection from a typical Auto, Homeowner's, or Renter's policy. The average wrongful death settlement can range from \$500,000 to several million dollars.

### Strategy

Purchase a personal umbrella policy (PUP) to fully cover the assets you own and the potential for the garnishment of future wages. These policies are purchased in increments of \$1 million, and for many \$1 - \$2 million will be enough coverage. The insurance company will require a certain level of underlying liability insurance for Auto, Homeowner's/Renter's policies, usually \$300,000 to \$500,000.

## Insuring Possessions

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## HOMEOWNERS INSURANCE

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### Why?

For some people their house is their most valuable asset, for many it is likely the only asset they will end up passing on to their heirs, and for all of us we need a home for shelter. Along with insuring the house, we also must insure the contents, this is our personal property, detached structures like separate garages, the potential costs we incur if we can't use the house, and finally medical and liability payments we may have to pay.

### Strategy

Your Homeowner's policy should cover 80% of the replacement value of the home to ensure that you will receive complete coverage in the event of a loss. If you carry under 80% the insurer will only pay a prorated amount of your loss. For example, if your home has a \$500,000 replacement value you need at least \$400,000 in coverage. If you were to only carry \$300,000 and have a loss of \$50,000 with a \$1,000 deductible, the insurance company would only reimburse \$36,500 vs. the \$49,000 that would have been paid with proper coverage. Next, it is important to walk through your home and imagine a total loss, how much personal property coverage would you need to replace everything inside the home? Also, keep in mind your most valuable items are likely only offered limited coverage, as little as \$2,000, under your homeowners' policy. For example, jewelry, art, and other collectibles.

To properly insure valuables, you need to add a rider, or buy a separate valuables policy. It would also be helpful to photograph your personal property in the event of a claim. You don't need to photograph every item but just take pictures of the rooms and the closets. Loss of use amounts and medical payment amounts are not as important if you have a properly funded emergency fund. The first will cover costs like hotel rooms if you are displaced so the coverage amount really depends on if you would stay with family/friends, or the type of hotel or rental property you would choose. The latter provides rapid payments for medical costs for injuries incurred at your home. Finally, it is extremely important that we purchase enough liability coverage, typically the minimum would be \$300,000 but more may be required by the insurance company providing our personal umbrella insurance.

## RENTERS INSURANCE

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### Why?

A renter's policy is similar to a homeowner's policy, however because we are only renters it won't cover the structure itself, it will only cover our contents, liability, living expenses and medical payments.

### Strategy

As with our homeowner's policy we should walk around our rental and imagine a total loss while we photograph our personal property. We want to ensure we have enough coverage to replace all our items, we also will need a rider or separate valuables policy for jewelry and collectibles. The amount of our liability coverage should be tied to our net worth and our personal umbrella. Living expenses are similar to loss of use on a homeowner's policy and will depend on lifestyle. Finally, medical payments will depend on your emergency fund and how much you choose to self-insure against losses.

## AUTO INSURANCE

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### Why?

According to the Insurance Information Institute, auto claims and losses have been increasing every year with only a pause for 2020 due to COVID. This isn't that surprising with all the vehicles on the road and with drivers becoming more and more distracted with not only their cell phones but the technology inside the vehicles themselves. A typical policy will cover liability for bodily injury and property, uninsured/underinsured coverage, comprehensive, collision and medical payments.

## Strategy

Strategy – Purchase amounts will vary depending on income and net worth but usually a minimum of \$300,000/\$300,000/\$100,000 should be purchased. This would cover an individual for any liability claim of \$300,000 per person injured, an aggregate of \$300,000 for the entire occurrence and \$100,000 for any property damaged. It is important to note here that the insurance company you purchase your personal umbrella insurance from may require larger amounts. If you were to get into an at-fault accident and were sued for \$1,000,000 this policy would only cover \$300,000 for any personal injuries and \$100,000 for any property damage, that leaves \$600,000 to \$700,000 that could be at risk. Uninsured/underinsured coverage should match your liability coverage amounts, this gives you the ability to sue your insurance company in the event you are in an accident with someone that does not carry any or enough insurance. This coverage is especially important for those with higher incomes and net worth. Comprehensive and collision cover the vehicle itself, with a properly funded emergency fund, it is beneficial to choose higher deductibles in the \$1,000 to \$2,000 range, which will lower your annual premium. Finally, medical payments will cover the cost of any medical bills resulting from an accident, for example surgeries and x-rays.

## VALUABLES INSURANCE

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### Why?

Homeowners' and renters' insurance covers personal property, but not our most valuable personal property like jewelry or expensive collectibles such as artwork.

### Strategy

Purchase a separate valuables policy where you schedule your individual items.

This allows you to have the items appraised and covers most losses including simply losing the valuable while on a trip or having it flushed down a sink or toilet.





# Cash Management

## EMERGENCY FUND

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There should be 3 to 6 months of non-discretionary spending saved in a safe, liquid account. Single people or married couples where one spouse earns much of the household income should have 6 months of savings, everyone else should have 3 months of savings. A safe, liquid account includes checking or savings accounts, traditional money-market funds, or CDs, it DOES NOT include anything “risky” including stocks, bonds, Bitcoin, stablecoins or any other cryptocurrencies.

## BAD DEBT

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Any bad debt should be paid off as soon as possible. Bad debt would be any high- interest debt used to purchase non-appreciating property. For most people this would only include credit cards, but for some it could also include high-interest rate auto loans. Any bad debt should be planned to be paid off within the year, if not earlier.

## SHORT-TERM FINANCIAL GOALS

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Funds needed for short-term goals should not be put at risk. This money should be held in similar vehicles to the Emergency Fund, with the addition of very short-term bonds. If you need a down payment for a house, you cannot have the account down 20% when you need to withdrawal funds.



# Employee Benefits

Too often employees don't spend enough time learning what benefits their employer offers. Utilizing these benefits properly can provide big benefits and tax savings.



## RETIREMENT PLAN

401(k) or 403(b) which allows employees to invest, up to \$23,000 tax-free for 2024.

There is usually an employer match which is based on a percentage of income.

For example, an employer could match 100% up to 5% of salary. If the employee doesn't at least contribute 5% they leave free money on the table. For someone making \$100,000 this is \$5,000.

Some employees may also receive a profit-sharing contribution to their 401(k), limit for 2024 is \$46,000.

Employees who are 50+ can make an additional catch-up contribution of \$7,500 for 2024.

Business owners with no employees can set up an Individual 401(k).



## MEDICAL/DENTAL /VISION

Medical – Employees are usually given the choice of a PPO/HMO or High Deductible Health Plan (HMO). For healthy employees the HDHP is the best option because it offers lower monthly premiums, and it can be paired with a Health Savings Account (HSA). It is important to note here that this strategy works only if the employee is disciplined enough to save.

Dental/Vision - Employers typically offer a couple of different options for each depending on the amount the employee wants to self-insure. What option is chosen depends on the level of services required.

For all of these plans the employee can either require the employee to pay all or none of the monthly premiums. Usually, the employer provides some percentage of the cost.



## LIFE INSURANCE

Basic – Employees can receive up to \$50,000 in tax-free life insurance. Most employers offer 1 to 2 times salary, paid for entirely by the employer.

Supplemental – Employees are given the opportunity to purchase additional supplemental insurance directly from an insurance carrier. Usually, the employee pays 100% of the premium. Given these policies typically are based on age and written as one-year term policies, it is recommended that an analysis be done to compare the total cost of coverage verses 15/20/30-year term coverage. If the employee is unhealthy the supplemental policy is likely the best option because they may avoid underwriting. However, if the employee is healthy purchasing an individual policy is usually cheaper.



## DISABILITY INSURANCE

Short-Term – Typically this is offered at no cost to employees and provides benefits for 13 to 26 weeks. The payments will be taxed as ordinary income and will be a percentage of normal earnings. Ideally these payments are just extra payments since any funding for short-term disabilities should be covered by an Emergency Fund.

Long-Term – This benefit can be employer paid, employee paid, or the cost shared by both parties. Usually it is an “Any Occupation” disability definition that will pay a percentage of income to age 65 after a waiting period of 0/30/60/90 days. This definition means that if you can work at all the policy will not pay any benefits.



## FSA

Flexible Spending Accounts (FSA) cover care for dependents and healthcare. These accounts are funded with pre-tax dollars and can be used to cover qualifying costs. If the accounts are not depleted by certain times the dollars are lost. Usually, the deadline is end of the plan year with a potential grace period.

Dependent Care – Can be used to cover costs for children or elderly family members. For 2024 can save up to \$5,000.

Health – This covers qualified healthcare expenses. For 2024 can save up to \$3,200.



## HSA

Health Savings Accounts (HSA) are eligible for individuals with High-Deductible Health Plans. These accounts allow for pre-tax dollars to be saved and invested, and tax-free distributions to cover qualified health expenses.

For 2024 single people can contribute \$4,150 while families can contribute \$8,300, those 55 and older can contribute an additional \$1,000. These contributions can be made by employees, employers, or shared. Funds are not lost at year-end; they are owned by the individual.



# Investing

The focus on investing should be to control what we can, including Investment Vehicle Selection, Portfolio Construction, Cost, Taxes, and most importantly our behavior. We recommend a strategy built on evidence-based investing, this is a disciplined, unemotional, and highly diversified approach to managing assets.

## Investment Vehicle Selection

### WHAT TO INVEST IN? INVESTABLE ASSET CLASSES

Each asset class has its own risk and return characteristics and within each asset class there are sub-asset classes that have their own risk and return characteristics. We will discuss the lowest return/risk assets to the highest risk/return assets.

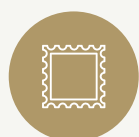
#### Cash & Cash Equivalents

As previously discussed, this includes cash, CDs, checking/savings accounts, and money-market accounts. It is important to understand that most of these vehicles will lose value over time due to inflation. While we feel like we are keeping our money “safe” we are silently going broke.

#### I was born in 1978 when things cost;



New home = \$62,500



First-class stamp = \$.13



Gallon of gas = \$.63



Dozen eggs = \$.82

## Bonds

When you invest in bonds you are lending your money to a borrower who is promising to pay you interest and then return your principal back when the bond matures. The borrower can be a local government, the US government, a foreign government, or individual companies. Bonds are considered a safer investment than stocks because in the event of a bankruptcy bondholders get paid back before shareholders.

## Stocks

When purchasing stock, you are buying into the assets, liabilities, income, and expenses of an enterprise. Your share gives you the right to profits of the business that can be paid out to shareholders via dividends or reinvested in the business to make it more valuable, which will increase the market price of your shares. If a company goes bankrupt individual shareholders typically lose all their investment, therefore there is a risk premium (higher returns) that shareholders receive as compared to bondholders.

## Real Estate

For most people the single biggest investment they will make over their lifetime is the purchase of their home. What may be shocking to learn is that your primary home is not actually a great investment. This is because of the carrying costs including insurance/taxes, along with the cost of upkeep. Historically, home prices have appreciated at a rate slightly higher than inflation which is less than half of the return common stockholders earned. This doesn't mean real estate is a bad investment, on the contrary investing in non-owner-occupied real estate can be a great investment. Buying rundown properties and fixing them up for rent or re-sale can produce equity-like returns, but it is important to consider these returns come with a lot of work and equity-like risk.

## Commodities






Some may be surprised to learn that you can invest in things that we use/consumer in our everyday lives. This includes oil, natural gas, orange juice, even cattle! Each of these commodities' return potential is driven by supply and demand since they don't have any earnings or capital structures like a company would. If there are going to be cold temperatures in Florida that could negatively impact the orange crop, less oranges may be available to make orange juice, this lack of supply could cause the price of oranges and orange juice to increase. Commodities would be considered the riskiest of the investable asset classes we will discuss.



### Historical Returns of various asset classes

NYU Stern School of Business produces a great historical record of various asset classes. I have summarized the returns below, but you can find all of the data at:

[https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)

1928 – 2023				
				
S&P 500	CASH	GOV'T BOND	CORP. BOND	REAL ESTATE
9.90%	3.33%	4.62%	6.75%	4.28%

## HOW TO INVEST? INDIVIDUAL INVESTMENTS VERSE POOLED INVESTMENT VEHICLES

### Individual positions

You can choose to invest in individual stocks, bonds, real estate, or commodities. This would be considered the highest risk way to invest because you can lose 100% of your investment. If you purchase an individual stock or bond, and that company goes out of business, or if you purchase one investment property, and you can't find renters or sell the property, you may lose everything that was invested.

Investing in this way would also take the most time and effort because you must research and analyze what you should be buying and selling. Is Microsoft a better investment than Netflix? Should you buy a New Jersey Bond or Pennsylvania? Will Coffee appreciate more than Lumber?

## POOLED INVESTMENTS

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With pooled investment vehicles you aren't deciding which individual investments to buy and sell. You are hiring a portfolio manager to make those decisions for you. It is important to understand that this isn't the same as hiring a financial planner or financial advisor. Portfolio managers are the people that manage the investments, sometimes this could be your planner/advisor, but in most cases that person is hiring a portfolio manager on your behalf.

### Mutual Funds

Over the past couple of decades this has been the most common way to invest. You would contact a company like Vanguard, and you would buy shares in one of their mutual funds. Vanguard takes your deposit, and their portfolio manager buys and sells according to their investment mandate, i.e., US Large Cap Growth Fund. Most mutual funds are open-ended funds meaning they can continually sell shares of the fund and when you want to sell your shares you redeem them, meaning you sell the shares back to the fund. Redemptions occur at the end of the trading day once the fund has had an opportunity to account for its holdings and calculate its Net Asset Value (NAV). The redemption process is not tax-efficient, if a mutual fund receives a lot of redemptions, they may have to sell holdings that have appreciated to raise cash. This tax structure means that there are years you could have investment losses but still receive capital gains from your mutual fund shares.

### Exchange Traded Funds (ETFs)

ETFs have taken over the investment world and is largely how new money is typically allocated. ETFs are traded throughout the day on exchanges, so investors avoid the tax issues open-ended mutual fund investors deal with, they also can be bought and sold throughout the day. ETFs are also less expensive than mutual funds because they typically are built to replicate how an index like the S&P 500 performs, verses open-end mutual funds which attempt to outperform the S&P 500. Studies have shown these actively managed funds usually underperform their respective index.

### Hedge Funds, Private Equity Funds & Venture Capital Funds

These pooled funds are typically limited to accredited investors, defined by the SEC as someone with a \$1 million net worth (not including their home) or income over \$200,000 if single or \$300,000 if married in each of the prior two years. Returns in these funds are extremely dependent on the manager, their strategy, and the amount of risk they take. This space is littered with horror stories of investors losing everything. It is very important if you decide to invest in any of these funds you do the necessary due diligence to understand the risks involved.

# Portfolio Construction

## DIVERSIFICATION

“Diversification is the only free lunch,” in investing, said Harry Markowitz. Harry won a Nobel Prize for his work on Modern Portfolio Theory. This theory says every investor has an optimal portfolio that provides a level of return based on the amount of risk they are comfortable taking. The more risk an investor is willing to take, the higher their expected return. I have found that most investors can’t stomach seeing their portfolio drop a lot in value, therefore they are best served diversifying their assets. This diversification limits risk, but it also limits returns. From the chart below you can see that the best performing asset class over the past 15 years was Large Cap Stocks, returning 14%, but those returns were also volatile, in 2022 Large Cap Stocks lost over 18%. Alternatively, an investor in a diversified portfolio gained a little over 8% in the past 15 years with a lot less volatility, in 2022 it was down less than 14%. One of the most important decisions an investor can make is what level of risk to take with their portfolio. Would they be best suited with a conservative, moderate, or aggressive portfolio?

2009-2023		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Ann. 14.0%	Vol. 21.9%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%
Small Cap 11.3%	REITs 21.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%
REITs 10.9%	EM Equity 20.3%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%
High Yield 8.6%	DM Equity 18.4%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%
Asset Alloc. 8.1%	Comdty. 16.6%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%
DM Equity 7.4%	Large Cap 16.1%	Comdty. -35.6%	Large Cap 25.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%
EM Equity 6.9%	High Yield 11.5%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%
Fixed Income 2.7%	Asset Alloc. 11.5%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%
Cash 0.8%	Fixed Income 4.5%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%
Comdty. -0.2%	Cash 0.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%

Source: JP Morgan Asset Management - Guide to the Markets as of 12/31/2023

## CONCENTRATED POSITIONS

“

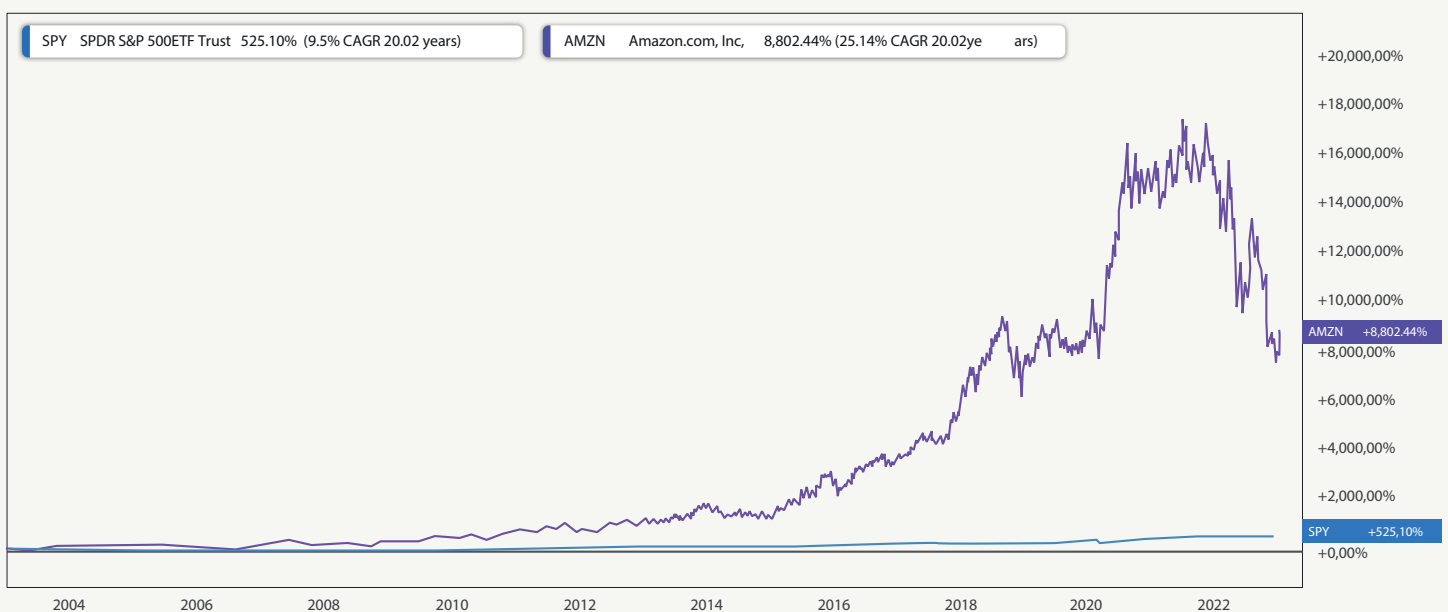
Concentrated investments can make an investor very rich or very poor.

- Charles C. Weeks Jr.

”

Amazon over the past couple of decades has returned 8,800% versus 525% for the S&P 500, whereas if you invested in Enron, you would have lost 100% of your investment.

Can you pick the next Amazon and avoid the next Enron?



## Investment Costs

### COMMISSIONS

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Commissions are becoming more and more of a rarity in financial services, but they do still exist. Typically, you will see commissions with mutual funds or in the insurance industry with life insurance or annuities. If your financial advisor says that they aren't charging you anything for their work, they likely are being paid commissions for selling you a product. Nobody works for free so if an advisor says this it is a red flag and you likely aren't working with the most honest or ethical person.

### EXPENSE RATIOS

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These are the costs of the financial product you are investing in. For example, mutual funds or exchange traded funds from companies like Vanguard earn money by offering mutual funds and charging an expense ratio to manage the investments in those funds. Some expense ratios can be very low, .05%, or can be very high, almost 2% or more.

### ADVISOR/PLANNER FEES

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These are the fees you are paying to the financial professional you work with to provide investment and/or financial planning services. These fees are usually based on the assets the professional manages for you and range from .5% to 2%, the industry standard is around 1%. The fee schedule can be flat or tiered. A flat fee schedule would charge you a set percentage on the total assets under management, for example 1% of \$1,000,000. While a tiered schedule charges a blended fee, for example 2% on the first \$250,000, 1.5% on the next \$500,000 and 1% on the last \$250,000. Most firms charge a tiered schedule so while you may think you are paying 1% you are paying a blended fee of 1.5%. More and more advisors are offering retainer fees, where they will provide asset management and/or financial planning for a set annual cost. These fees range from \$1,000 up to \$20,000 per year and are based on someone's net worth and the financial complexity of their situation.

## HEDGE, PRIVATE EQUITY AND VENTURE CAPITAL FUNDS

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The cost of these funds varies from fund to fund. There is usually a management fee based on the assets managed, this ranges from 1% to 2%, but could be higher. There is also a performance fee charged, where the fund keeps a percentage of gains above a high-water mark. For example, the fund may charge a performance fee of 30% of the gains, above an 8% high-water mark. If the fund earns 6% there is no performance fee earned and the fund just earns the management fee.

## Taxes

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### CAPITAL GAINS

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These are the taxes investors pay when their investments appreciate. They can be either short-term or long-term in nature. Short-term capital gains taxes are paid when investments are held for less than one year. These gains are taxed at an investor's individual income tax rates, which are above 30% for higher earners. Long-term capital gains taxes are paid when investments are held greater than one year and are taxed at their own capital gains tax rate, which would be 0%, 15%, or 20%. Only those earning around \$500,000 annually would be in the highest 20% bracket.

### TAX-LOSS HARVESTING

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This is a strategy to avoid paying capital gains taxes as well as a way to reduce a small amount of income tax on our ordinary income. The IRS allows us to net our capital gains against our capital losses each year. For example, if you had \$2,000 of short-term gains and \$3,000 of long-term gains and \$10,000 in capital losses in the year, the IRS would allow you to net everything together. You would end up with \$5,000 of capital losses for the year, therefore totally avoiding paying any capital gains taxes. Further, the IRS would let you use \$3,000 of the remaining \$5,000 in losses to reduce ordinary income for the year. So, if you had earned \$100,000 in income the IRS would only tax you on \$97,000 of earnings for the year. The remaining \$2,000 in unused capital losses can be carried forward indefinitely to use in future years.

## Behavior

### INVESTOR VERSUS SPECULATOR

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When you buy any financial assets, whether it be a stock, bond, or real estate, it is important to know whether you are an investor or speculator. How long do you plan on holding the asset? Have you done a thorough amount of research on the asset? Do you know something that someone else doesn't? Do you plan on adding value?

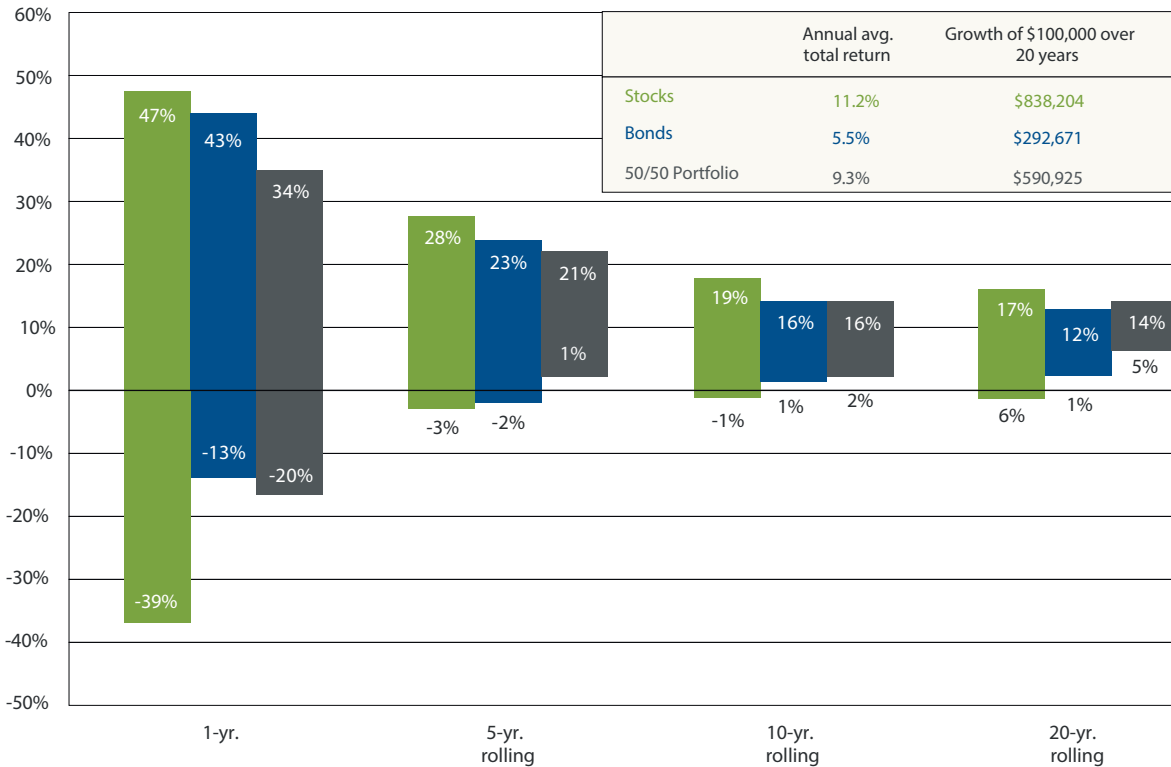
An investor is planning on holding an asset for the long-term and is willing to live through volatility because they think they know something the public does not. A speculator is playing the market and needs to be willing to "cut ties" with a bad bet quickly. Most people think they are investors, but they are really speculators.

### IMPORTANCE OF TIME

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Range of stock, bond and blended total returns  
Annual total returns, 1950-2023



## BIASES

Traditional finance is built on the idea that investors are rational, and markets are efficient but over history we have seen time and again this isn't entirely true. Humans are irrational, and we allow behavioral biases to impact our investments all the time. By understanding these we can avoid them and become better investors. While there are many biases here are the most common to watch out for.

### Confirmation Bias

Do republicans like to watch Fox? Do democrats prefer MSNBC? Confirmation bias describes how people would rather have their beliefs affirmed instead of opposed.

If you think Meta (Facebook) is a good investment you are likely to give more weight to a positive article/research report than you would a negative one. That positive article confirms your belief that Meta is a good investment. To become a better person/citizen/investor we should always be willing to keep an open mind and listen/read opposing views of our beliefs.



## Herd Mentality

Like many animals, humans like to be part of the “herd” or the group. There is a natural inclination for FOMO, or fear of missing out. So, when internet stocks, real estate, beanie babies or tulips in the 1600s become “good” investments people tend to pile in. Prices get pushed to unsustainable levels, called bubbles, and eventually everyone starts selling until prices crash, sometimes to \$0. Alternatively, herds of investors can panic as well and sell something to a level below what it is worth. During the Great Financial Crisis in 2008, not all real estate was a bad investment, but prices fell across the board.

## Anchoring

Anchoring occurs when investors lock-in to a price or overall value of their portfolio. Ever made a bad investment and say to yourself, well once it gets back to my purchase price I am selling! The better statement would be I need to do some more research and find out why the price fell and if there is any chance the value can return to my purchase price. Other people may say once their portfolio gets above.

\$500,00 they are going to totally get out of the stock market. This is not a good way to manage money, even when your portfolio reaches \$500,000 stocks may be the best available value at the time. Bonds aren't always the safest investment; this unfortunately was really reinforced in 2022 when long-term US government bonds, measured by the iShares TLT ETF, lost almost 30%.

## Loss aversion

People FEEL losses greater than gains, meaning they are much more likely to not sell losing investments. Even crazier, people tend to sell their winners too soon, wanting to lock-in gains. So instead of letting their winning investments run and cutting out their losers early, they do the opposite. I still meet people today who hold investments from the late 90's dot.com bubble. They don't want to realize the loss and they are anchoring to some higher price.

## Overconfidence

Investors tend to be too confident in their ability to invest. Despite very few Warren Buffett's in the world, the average person, spending a couple hours per week reading about stocks, believes they can outperform highly-educated, Wall Street analysts who spend 15 hours per day researching investments, building out complex financial models and analyzing financial statements.



# Taxes

Understanding the tax code will allow you to legally avoid paying any unnecessary taxes.

To understand the tax code, it would be best to review your personal tax return (Form 1040) and the formula used. I am going to use general categories to explain the form.

It's not how much money you MAKE  
that's important,  
It's how much you KEEP.



## TOTAL INCOME (LINES 1 – 9)

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### What is it?

Here we capture all the income earned from all activities for the year, this includes active, portfolio and/or passive income.

Not all this income is taxed at ordinary rates, but it is used to calculate total income and adjusted gross income.

### Strategy:

To reduce taxes, we want to reduce our total income by contributing to employer provide retirement accounts like 401(k)s and 403(b)s. Every dollar we contribute to those accounts goes towards our retirement AND reduces our taxable income.

If your effective tax rate is 25%, for every \$1 invested you save .25 cents in taxes.

## ADJUSTMENTS TO INCOME (LINE 10)

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### What is it?

This section is now found on Schedule 1, previously the additions to income along with above-the-line deductions were all found directly on the 1040. Part I of Schedule 1 are items that are considered Additional Income, for example Business Income, Partnership Income, Unemployment Compensation, Gambling Income, really anything other than money one would receive from their regular job. Part II of Schedule I are adjustments to income, items that will help reduce the taxpayer's Adjusted Gross Income (AGI), along with any taxes owed. These adjustments include items like health saving's account contributions, deductible portion of self-employment tax, IRA deductions and the student loan interest deduction.

### Strategy:

For Additional Income we want to limit the income we recognize as much as legally possible, this means taking proper business expenses to reduce business income and reporting any gambling losses that may offset gambling gains. Part II is where we can really reduce our AGI, we need to take as many adjustments as possible.

## ADJUSTED GROSS INCOME (LINE 11)

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### What is it?

This is a taxpayer's gross income minus adjustments. Many sections of our tax code rely on a taxpayer's AGI, these include tax benefits, allowance, credits, and deductions.

### Strategy:

As mentioned previously we want to reduce AGI as much as possible to ensure we qualify to deduct our IRA contributions or can take education credits. Our AGI even impacts whether or not our Social Security benefits are taxable.





## STANDARD OR ITEMIZED DEDUCTIONS (LINE 12)

### What is it?

These are often called deductions from AGI. Taxpayers are given the opportunity to either subtract a fixed dollar amount, or a variable amount based on their personal levels of spending on certain expenses. The fixed dollar amount is called the Standard Deduction and is adjusted higher annually based on inflation. The variable dollar amount is called Itemized Deductions and the total value is completely dependent on each taxpayer’s individual spending.

### Strategy:

Taxpayers should calculate their potential Itemized Deductions and use that amount if it is greater than the Standard Deduction. It is estimated that 90% of Americans opt to use the Standard deduction, but we aren’t sure if that is because the amount is greater or because they don’t try and itemize. The top itemized deductions are the following:

 <p><b>MEDICAL &amp; DENTAL EXPENSES</b></p>	<p>This includes medical expenses such as insurance premiums, hospital stays, doctor appointments, eye-care costs, reproductive costs, even service animal costs. These expenses are only deductible though if they are greater than 7.5% of AGI. For example, if a taxpayer’s AGI was \$100,000 and they had \$10,000 of deductible medical expenses they could only use \$2,500 to offset income, 7.5% of \$100,000 or \$7,500 would not be deductible. This is a good example of why lowering AGI is such an important tax strategy.</p>
 <p><b>TAXES YOU PAID</b></p>	<p>This includes State and local taxes, like state and local income taxes and property taxes. This deduction is limited to \$10,000.</p>
 <p><b>INTEREST YOU PAID</b></p>	<p>Any interest paid on home mortgage loans up to \$750,000 is an itemized deduction. Also, if a taxpayer borrows money to invest in stocks, i.e., margin, they can deduct that interest up to total net investment interest earned. The mortgage interest deduction is typically the largest taxpayer deduction available.</p>
 <p><b>GIFTS TO CHARITY</b></p>	<p>Finally, taxpayers can deduct any charitable contributions made to qualified charities. Taxpayers are limited to taking a 50% of AGI deduction for cash contributions and 30% of AGI for non-cash contributions.</p>

Some taxpayers may decide to bunch gifts to charity to qualify to Itemize Deductions in certain years. Instead of giving \$10,000 annually, they may give three years’ worth of gifts (\$30,000) to qualify to itemize and use the standard deduction in future years.

## QUALIFIED BUSINESS INCOME DEDUCTION (LINE 13)

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### What is it?

This allows owners of sole proprietorships, partnerships, S-corporations and certain trusts and estates to deduct 20% of income. This benefit is phased out for certain taxpayers that operate in specific industries, such as lawyers and investment advisors.

### Strategy:

To maximize the deduction, it may be necessary to reduce taxable income by deferring income, maximizing retirement plan contributions, or bunching or accelerating business expenses.

## TAXABLE INCOME (LINE 15)

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### What is it?

This is the portion (AGI minus standard or itemized deductions) of your gross income that is used to calculate how much tax is paid for the year.

### Strategy:

Like AGI we want to reduce taxable income as much as possible by maximizing our itemized deductions or simply taking the standard deduction.

## TAX (LINE 16)

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### What is it?

This is the amount of tax that is due for the year given your reported taxable income and filing status. Each filing status has their own income tax brackets, for example a single filer earning \$100,000 would be in the 24% marginal tax bracket while a couple filing jointly earning the same amount would be in the 22% marginal tax bracket. Marginal tax bracket refers to the bracket that your last dollar earned is taxed at.

**Strategy:**

A married couple with taxable income of \$350,000 in 2024 would have a tax amount of \$70,084.

IF TAXABLE INCOME IS OVER:	BUT NOT OVER:	THE TAX IS:
\$0	\$23,200	10% of the amount over \$0
\$23,201	\$94,300	\$2,3200 plus 12% of the amount over \$23,201
\$94,301	\$201,050	\$10,852 plus 22% of the amount over \$94,301
\$201,051	\$383,900	\$34,337 plus 24% of the amount over \$201,051
\$383,901	\$487,450	\$78,220 plus 32% of the amount over \$383,901
\$487,451	\$731,200	\$111,356 plus 35% of the amount over \$487,451
\$731,201	no limit	\$196,668 plus 37 % of the amount over \$731,201

These taxpayers find themselves in the 24% marginal tax bracket, while their effective tax rate is 20% (\$70,084 tax paid divided by \$350,000 of taxable income).

## OTHER TAX (LINE 23)

**What is it?**

Other tax is calculated on Schedule 2. Part I includes any Alternative Minimum Taxes (AMT) due. Every year your tax preparer calculates what you owe in regular tax along with what you owe in AMT. For most taxpayers their regular tax is greater than AMT, so they just pay that amount. However, in certain situations like very high household income, realizing large capital gains and exercising stock options AMT can be triggered. When that happens, a taxpayer would owe regular tax along with any additional AMT. Part II includes other taxes, most notably self-employment taxes for the self-employed, additional Medicare and Net Investment Income Tax for high-earners.

**Strategy:**

Like many other portions of our return, we want to limit the amount of income we recognize which will reduce these additional taxes. We can limit this income by accelerating or delaying assets sales, making larger retirement plan contributions, or increasing qualified business expenses to reduce self-employment income.

## WITHHOLDING, PAYMENTS, CREDITS (LINES 25 - 32)

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### What is it?

In this section taxpayers are given the opportunity to reduce their total tax due. W-2 employees will have their federal income taxes withheld throughout the year; those amounts are listed on line 25(a). On line 26, 1099 contract employees and self-employed individuals are required to pay estimated quarterly tax payments throughout the year, failure to do so results in penalties and interest owed. Schedule 3 captures Additional Credits and Payments which once calculated are listed on line 31. The ability to utilize these credits is based on AGI and include credits for education, retirement savings, adoption, child and dependent care and electric vehicles.

### Strategy:

Withholding and estimated quarterly tax amounts can qualify for a safe harbor from any IRS penalties if the taxpayer pays 90% of the tax owed for the current year or 100% of the tax owed for the previous year, 110% for taxpayers with an AGI over \$150,000 married filing jointly or \$75,000 for single filers. Taxpayers should take advantage of as many credits as they qualify for given any credit will reduce taxes owed dollar for dollar. As previously mentioned, to try and qualify for more credits taxpayers should focus on lowering their AGI.

## REFUND/OWE (LINES 34-38)

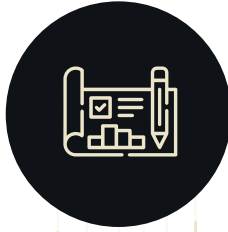
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### What is it?

This is the result of subtracting total payments on line 33 from total tax on line 24. A refund is just that, it is the amount above and beyond what you owe in taxes for the year. If you owe money, it is because you underpaid throughout the year.

### Strategy:

Ideally, we want to end up owing the IRS less than \$1,000, this means we withheld and/or paid quarterlies in amount almost exactly equal to what we owe. While most taxpayers enjoy getting a refund that is not an optimal tax strategy. Getting a refund means you let the Federal Government borrow money throughout the year while paying you no interest. These dollars could have been better served by paying down high-interest rate credit cards or by making retirement plan contributions throughout the year that could appreciate in value.



# Estate Planning

Estate Planning is not just for the extremely wealthy, each one of us needs at least a basic estate plan in place which includes the following:

## WILL

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A Will details a person's, called the Testator, final wishes for the following important items:



### Beneficiaries

This the person(s) who will inherit whatever assets remain at the testator's death.



### Executor

This is the person named in the will who will be responsible for ensuring all final debts/taxes are paid and any remaining assets are distributed to the appropriate beneficiaries.



### Guardians

These are the people who would be responsible, both financial and otherwise, for any minor children of the testator.



### Bequests

Here the testator can specifically bequest certain property to a beneficiary.



These are the basic items to begin thinking about, there are many more provisions that will be included in the final will. A will should be drafted by an Estate Planning Attorney to ensure it abides by the state law in which the testator lives. Copies of the will should be given to the executor, and even beneficiaries and when a new will is drafted all old will should be destroyed to avoid potential conflict of will.

## POWER OF ATTORNEY (POA)

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A Power of attorney can be used for making financial or healthcare decisions on your behalf when you are unable to do so on your own. When executing a power of attorney, much thought must be given to whom you name.

The financial power of attorney gives an individual the right to make financial decisions on your behalf. They can open accounts, borrow money, and invest, all in your name. It is “as if” they are you. This power can be general, meaning they can do whatever they want in your name, or it can be limited, meaning they can only do certain things on your behalf. For instance, some financial advisors have limited powers to put trades through or debit fees from client’s accounts.

The power of attorney gives the holder the ability to make healthcare decisions when you cannot. For example, if you are mentally incapacitated, say in a coma, you won’t be able to decide what care your medical team may provide. In this case, the person you named would work with doctors and nurses and decide what care you will receive.

Finally, these powers can be durable, non-durable or springing. Durable means the power continues even after the person giving the power becomes mentally incompetent. Non-durable means the power would cease at mental incompetency. Springing means the power does not take effect until mental incompetency occurs.

These powers are obviously very important, and you should only name someone after very careful consideration. Any decisions should be made in accordance with an overall estate plan constructed with your estate planning attorney.

## LIVING WILL

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The Living Will describes whether certain medical treatments will be provided at the end of life. The document typically covers medical treatments like CPR, ventilator use and feeding tubes. This document is important because it ensures that someone is not given treatments or kept alive beyond what they would request if they were able to speak for themselves.

## BENEFICIARY DESIGNATION REVIEW

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It is easy to get confused when planning how you want your lifetime of accumulated assets to be ultimately distributed. Many believe that whom they name in their will, and how they apportion those assets, determine who will inherit, and what they will receive. This is true for some, but not all of someone's assets.

Contract, trust, and property law control how certain assets are passed at death. Any assets controlled by these laws avoid probate and therefore supersede your will. By naming beneficiaries on your 401(k), or on your insurance policy, you are signing a contract stating that, at my death this person receives my benefits. It doesn't matter that you name someone different in your will; those assets will pass by contract law to the named beneficiary.

Please take time every year to review your beneficiary designations, a current spouse may not be happy to learn that they aren't receiving life insurance benefits because an ex was still the named beneficiary, don't laugh, it happens more than you'd think!





# Develop Financial Goals

Would you start a journey without knowing your destination?

Imagine you want to take a vacation, you don't have anywhere in particular you'd like to go, so you pack up some clothes, grab the kids and hop in the car and start driving. Not having planned anything you head south and end up at the beach, you open the luggage to discover you only packed sweaters and jeans. Now you can either buy a new wardrobe for your vacation or head north to the mountains. Either decision is going to cost you either time or money.



This is how most people handle their personal finances. It is essential to develop financial goals and document what steps need to be taken to achieve those goals. Once this is done we can then measure our actions, currently and in the future, to see if we are moving close or further away from achieving our goals. The sooner we do this the more likely we spend less time and money in achieving our financial goals.



# disclosures

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