

How To Build (or Rebuild) Wealth

This 11-part plan will help you establish a solid financial foundation or assess your progress.

The previous year has been painful, and the balance sheets of some Americans have taken a hit, while others have held up. However, even if your finances are still sound, or you took a step back, remember this: There are lessons that you may learn from the ups and downs, twists and turns of the economy, stock and various markets, as well as all the other forces that have impacted your money, that may help you make wiser choices the next time disaster strikes.

Reaching your goals and surviving setbacks, such as stock market corrections and bear markets, recessions, medical problems, and job loss, are both made possible by building and protecting your money. Your wealth-building refresher course should include a sincere evaluation of whether you permitted emotional, psychological, or other behavioral errors to steer you toward financial decisions you may now regret, such as abandoning the stock market just before the bear market's rout and missing the recovery. When our fears are at an all-time high, our brains are not equipped to easily make reasonable judgments. Find the triggers that can cause you to abandon your financial strategy, in order to prevent repeating the same mistakes in the future. The good news is that mistakes can serve as learning experiences that help you progress toward acquiring greater wealth.

Some of the topics laid out in this document are more complicated than others and some are simple. One aspect that is not discussed in this document and is assumed is in place, is the need for proper budgeting and tracking of your monthly and yearly finances, this is essential for these other topics to be successful.

I am happy to assist with any or all of these topics (including budgeting/tracking).
Read through the whole document to get the full picture.

1. Stay With Stocks

When the economy was in a state of pandemic lockdown, big cities resembled ghost towns, and job losses were mounting, bailing out of the stock market could have sounded like a good idea. The first bear market for stocks in more than ten years was about to begin. Selling, however, proved to be a poor decision, particularly for investors who never returned to the market. They lost out on the S&P 500's 75% rise from its low point and the quickest comeback ever.

An expensive withdrawal to the sidelines simply serves to reaffirm the cliché that trying to time the market is a losing tactic. The 16-session COVID-19 stock crash that happened so quickly serves as a reminder that timing a departure from the market is only the first step in a two-step process. Selecting the proper time to enter again is the second and most crucial step.

Missing significant gains, like the S&P 500's 9.3% leap on March 13, 2020, and a 9.4% surge 11 days later, is common (the 9th- and 10th-best daily jumps ever). Missing significant gains can

severely reduce returns. An investor who missed the S&P 500's top 10 trading days in the 20 years leading up to 2019 would have made an annualized 2.4% return and turned a \$10,000 investment into \$16,180 as opposed to a buy-and holder's 6.1% gain and account balance of \$32,241. It is correct that by avoiding the worst 10 days, a \$10,000 investment would have grown to more than \$68,000 at a 10.1% annualized rate. But to think that anyone is constantly able to predict market highs and lows is unrealistic, if not impossible.

The takeaway: "You can't control market moves, just your own,"

2. Spread the Wealth Around

The epidemic also taught investors that the market is unpredictable. And that emphasizes how crucial it is to have a diversified portfolio. You won't be protected from losses by diversification, especially in the short run. But over time, it will make your trip more comfortable. By diversifying your investments, you can prevent the collapse of your entire portfolio due to a decline in one of them. The counterintuitive rule of thumb is that you are not sufficiently diversified if a portion of your portfolio is not currently underperforming.

Create an asset allocation plan first. Set goals for how much to hold in stocks, ETF's, Index funds, annuities, bonds, cash, and other assets appropriate for the amount of time you have to invest and your risk tolerance. A portfolio for a moderate-risk investor with a 10-year time horizon might hold 40% in bonds, 35% in U.S. stocks, 15% in foreign stocks and 10% in cash; an aggressive investor with a longer time frame might put 60% in U.S. stocks, 25% in foreign stocks and 15% in bonds.

With allocation targets, you'll be forced to be rigorous about rebalancing your portfolio by occasionally skimming off some of your winnings and investing the profits in lagging assets, thereby guaranteeing that you'll sell high and buy low. Once a year, or whenever your allocation veers 10 percentage points off course, rebalance your portfolio. Whatever your trigger is, it really doesn't matter, the fact that you just do it matters more.

Even with stocks being erratic lately, most investors these days will need to sell stocks and buy combination of the proper index, segmented or target ETF's that can diversify and bonds to rebalance. Your choice of bonds will rely on the function you anticipate them serving in your portfolio, such as acting as a counterbalance to stocks, a secure location for cash you'll need soon, a source of income, or an inflation hedge. A high-grade bond fund such as can fortify your portfolio against a stock market downturn, for example. A short-term fund can preserve capital.

A 5% to 10% allocation (divided equally between your stock and bond slices) to an inflation hedge may be necessary given the escalating inflation concerns. One choice is to purchase Treasury inflation-protected assets directly from Uncle Sam (www.treasurydirect.gov). Another conventional inflation hedge, commodities, may be appropriate now.

3. Increasing Retirement Savings

Peace of mind for your retirement and, hopefully, enough money left over for your children to start building their own wealth (There are proper financial vehicles for this as well). These can both be obtained through a well-planned out, proper and well-funded retirement plan.

But the pandemic knocked even careful savers off their game. Millions of employees were compelled to lower their 401(k) and other savings contributions or take withdrawals to cover their expenses due to layoffs, furloughs, and reduced hours. Many people who kept their employment used their savings to assist family members. According to a survey by the National Association of Personal Financial Advisors, more than one-fourth of parents transferred money out of their retirement plans or investment accounts in 2020 to assist with their children's rent or other living expenses.

The first step in getting your money back on track is to fix any harm caused by the outbreak. The Coronavirus Aid, Relief, and Economic Security (CARES) Act enables you up to three years to refund any money you withdrew from a tax-advantaged retirement plan due to a coronavirus-related difficulty, provided your employer permits it. The repayment will be treated as a tax-free rollover. (If you repay the distribution after you've paid taxes on it, you can file an amended return and get a refund.) the sooner you repay the money, the more time it will have to compound and grow.

Likewise, make a commitment to pay back any loans you took out from your 401(k) plan as soon as your resources permit. Although the CARES Act extends the time you have to return a 401(k) loan from five to six years, repaying the money you borrowed as quickly as feasible can benefit you in the long run.

As the economy improves, and with it, your own finances, step up your savings. Many Americans who kept their jobs during the pandemic saved more money than before. But a large portion of that money is sitting in low or no interest bank savings accounts. Increase your contributions to your retirement savings plans using portion of that money to strengthen your wealth-building skills. A 401(k) or comparable workplace plan allows you to save up to \$19,500 in 2021, or \$26,000 if you're 50 or older. Contribute into your 401k, up to the max match that your employer offers and then invest the rest in investments with less fees and better returns. A retirement/financial planner can assist you with this.

There are other ways to increase your retirement savings that can help cut your retirement taxes, a crucial component of wealth accumulation. If your salary falls under certain limits, you can contribute up to \$6,000 (\$7,000 if you're 50 or older) to a Roth IRA. Withdrawals from a Roth are tax-free as long as you're 59 1/2 and have owned the account for at least five years. Consider directing at least a portion of your contribution to the Roth 401(k) account if your employer offers one. While contributions to a Roth 401(k) won't lower your taxes right away, withdrawals from it will be tax-free when you retire, just like with a standard Roth. The income eligibility for Roth 401(k) plans is unlimited.

You can contribute money to a health savings account, a useful tool for accumulating wealth, if you have a high-deductible health insurance plan that qualifies. These have extra tax benefits; the money grows tax-deferred in the account, contributions are pre-tax (or tax-deductible if your HSA is not employer-sponsored), and withdrawals are tax-free for qualified medical expenses without a time restriction. You can take tax-free withdrawals to cover medical costs after retirement if you don't use the money for out-of-pocket expenses while you're working. If you have self-only coverage in, you can donate up to \$3,600; if you have family coverage, you can contribute up to \$7,200. By the end of the year, if you are 55 or older, you are eligible to make catch-up contributions for an additional \$1,000. Most HSA's also offer the ability to invest the money that is in your HSA, which can be saved as well for later and even retirement and take advantage of the double tax break.

While social security is not something you can change how much you put in, you can optimize the use of the social security benefit. Social Security is the biggest source of government-guaranteed income and getting the claiming decision right is critical to maximizing lifetime income. What's worse is that SS rules (There are 2,700 of them) are confusing and much of the information out there is muddy, misleading, or just wrong, then to cap it off the Social Security Administration is not allowed to offer advice. A retirement planner trained in social security can assist you with this.

4. Increase your savings rate

Saving has proven difficult for many who experienced financial setbacks due to the pandemic and ensuing troubled economy. However, as a whole, Americans have been saving more money as they stayed in and make fewer purchases during the pandemic. The personal savings rate, as determined by the U.S. Bureau of Economic Analysis, surged to a record 33.7% of disposable income in April 2020 when COVID-19 swept the nation and people began receiving government stimulus cheques. Since then, the rate has stayed considerably above 10%, which is greater than it had been in the years prior to the pandemic. Deposits have poured into banks in abundance. Any additional funds can be used to fund other objectives, such as a down payment on a property, a post-pandemic trip, or a rainy-day fund and of course your retirement savings.

The bad news for savers is that interest rates in standard savings accounts are very low and are expected to stay that way for a few years. However, by visiting DepositAccounts.com, you can search for accounts in your area that offer above-average yields. If you meet certain requirements, such as using your debit card multiple times each month and getting electronic statements, certain high yield checking accounts offer rates of more than 4%. You can also ladder certificates of deposit, which involves investing money in CDs with varied maturities so that they mature at different times, allowing you to take or reinvest the money.

With that said, once you have your savings cushion built with emergency fund in place (see #5 below), there are much better places to put your money that have better growth and

protections, like indexed annuities and cash value permanent life insurance. Combine these with your standard investment mix, discussed above, to have a well-balanced portfolio.

5. Put money in an emergency fund

The pandemic's effects on lost jobs and income have made the necessity of a reserve fund crystal clear. According to a study, more than four in ten individuals who had emergency reserves used them during the pandemic. Without enough of an emergency fund, you risk falling behind on payments, turning to high-interest loans, or taking distributions from retirement funds to pay your costs.

As a general guideline, you should have three to six months' worth of living costs set up in a savings account. However, if you're the only income worker in your family, it's a good idea to save aside enough money for six to 12 months' worth of spending. The emergency fund will come in handy not only if you lose your job but also if you incur a sizable, unforeseen expense like a costly car repair or significant medical bill.

To avoid a monthly cost, look for an account that is simple to use, has a relatively high interest rate, and has few or no prerequisites.

6. Get in charge of your debt

According to a Credit Cards.com poll, 44% of U.S. people who have credit card debt believe that the pandemic's consequences are to blame for the fact that about half of them have increased their debt during the crisis. Carrying a balance on a credit card can swiftly lead to debt accumulation because these cards frequently have double-digit interest rates, a recent average of 16%, according to the Federal Reserve. Make paying off such high-interest debts a priority.

Transferring the amount to a card with a reduced interest rate is one strategy to lower your credit card rate. Since lenders have tightened their requirements, it has become harder to find and qualify for balance-transfer offers. However, if your credit score is higher than 700, you may be able to acquire a 0% introductory rate. Other choices include using a lower-rate personal loan or home equity line of credit to pay off the credit card debt.

Examine your other debts as well. Federal student loan borrowers have benefited from a suspension on payments and interest accrual because of the pandemic. The moratorium will come to an end in 2023, so prepare to resume payments. With rates on the rise, home refinance may not be an option, but compare what you have today with current rates.

With all that said above to make moves to reduce payments and rates, while you are doing that, you should be putting a plan in place to eliminate your debt, so you build for a better and more secure future.

One great plan to eliminate debt is the debt snowball method. The debt snowball method is a five-step approach to reducing debt where momentum, not math, is the key to eliminating debt.

You list all credit card debts in order of amount owed and start by paying off your smallest debt, then move up the ladder and eliminate them one-at-a-time, you will have more success at retiring all debts. The wins on small debt build confidence and lead to wins against larger debt amounts. It's counterpart, debt avalanche, takes a more mathematical approach and will actually save a little money. The snowball effect has a powerful human emotion aspect to it, that makes it more sustainable and hence more successful.

The debt snowball method has the backing from Blake McShane and David Gal, professors at Northwestern University's prestigious Kellogg Business School, who studied the issue and published their findings in the Journal of Marketing Research. "We found empirical support that psychological factors can be helpful (in paying off debt)," McShane said. "Paying off a small balance – a quick win – can make you feel good about yourself."

7. Keep Your Credit Healthy

The typical FICO credit score reached an all-time high of 711 in July of last year. In light of the epidemic and a rise in unemployment, that may sound contradictory, but credit ratings have benefited from decreased spending and more money in the form of stimulus checks and improved unemployment benefits.

Your ability to rent an apartment or sign up for a wireless phone plan will increase if you have a solid credit history. It will also help you acquire the lowest insurance premiums and the best interest rates on loans. Companies like FICO and Vantage Score create credit scores based on the data in your credit report to assist lenders in determining your creditworthiness. You often qualify for the best loan terms if your credit score is around 750 (on a scale of 300 to 850). By abiding by a few fundamental guidelines, you can raise your credit score: Pay all of your bills on time, only utilize a small portion of the credit you have available on your credit cards (20% or less is ideal; strive to keep under this amount) and avoid applying for several credit cards at once.

If your score has fallen or might need a boost, perform the following actions: Don't skip payments, even if it means paying only the least amount required, as your payment history is the most important consideration when determining your creditworthiness. Ask your issuer if it will lower the minimum, let you postpone a few payments, or otherwise change the terms until your financial situation improves, if the minimum is too much for you to handle.

One way to add positive payment information to your credit reports is to connect Experian Boost, a free service designed to help increase your credit score, to your bank account and allow it to add positive information about your payment history for utility and cell phone bills and even for your Netflix subscription to your Experian credit report.

Additionally, look over your credit report for errors and, if required, register a dispute. You can access a free credit report every week from each of the three main credit bureaus—Equifax, Experian, and TransUnion, by visiting www.annualcreditreport.com.

8. Check Your Insurance Again

In actuality, insurance does not build wealth accumulation. But it protects your assets (risk management): Without appropriate insurance, a fire, vehicle accident, or medical catastrophe might wipe away all of your funds and leave you in serious debt. In the event that you pass away, life insurance helps to protect the financial security of your dependents and replace your paycheck. There are types of life insurance that you can actually use for retirement funding as well and has tax advantages. There are proper uses for permanent life insurance as well as term life insurance and they can be used together, to complement each other. Then there is disability insurance that offers replacement income while disabled. In order to increase your defense against litigation, think about purchasing an umbrella insurance. Typically, the first \$1 million in coverage costs \$200 to \$400 per year; the following \$1 million costs an extra \$75 to \$100.

To decide the types and amounts of insurance you require, you can speak with a financial planner or an insurance agent. If you purchase your own health insurance, you should compare plans during a specific open enrollment period.

Meanwhile, working from home and eliminating your commute during the pandemic may have changed your auto and homeowners' insurance needs. I suspect that auto insurance rates will stay low as folks continue to drive less, so re-check and potentially shop your policy if you haven't already. (Raising your auto insurance deductible will also lower your premiums.) It may take time before the number of drivers on the road return to pre-pandemic levels, but traffic deaths have actually increased during the past year. Your state's minimum liability requirements are too low to adequately protect you or other people hurt in an accident. Make sure your policy covers at least \$250,000 per person, \$500,000 per bodily injury, and \$100,000 in property damage.

Homeowners who work from home might want to think about upgrading their current home insurance policy to include equipment breakdown protection. Equipment-breakdown insurance, if added to a typical home insurance policy, will pay for mechanical failures, electrical issues brought on by power surges, and installation-related issues. Normally, the cost of the insurance is \$50 - \$100 per year.

9. Build Your Home's Equity

Purchasing a property and watching your equity increase is one of the surest methods to increase your net worth. When you take out a mortgage, as most home purchasers do, you are using the power of leverage. You can profit from homeownership with a down payment as low

as 3% as long as you make your monthly payments and pay your property taxes and homeowners insurance on time. Every payment acts as a kind of compelled savings account by decreasing the mortgage principle and increasing equity. Price growth increases your home's value as well.

First-time home buyers are having a difficult time finding inexpensive homes due to the lack of available properties. The National Association of Realtors reports that the limited supply benefits homeowners, who have experienced a rise in the median price of existing homes of 14.1% over the past year. (However, that is far above average; according to one statistic, property values have increased by 3.4% per year since 1991.)

The coronavirus concern drove the 10-year Treasury note to an all-time low, and the Fed lowered the federal funds rate, making the pandemic an ideal opportunity to lock in a record-low rate if you own a home and have a mortgage. The typical 30-year fixed-rate loan dropped to 2.71%, while the typical rate for 15-year loans was 2.2%.

Although rates have started to rise, it could still be possible to cut your rate and use the extra money to increase savings or pay down principle.

Calculate the numbers using a program like The Mortgage Professor's refinance calculator to determine whether you would benefit from a refi (www.mtgprofessor.com). To determine how long you would need to remain in your house to begin saving money, enter the details of both your new loan and your existing mortgage. It's important to know how long it will take to recuperate your closing costs from a refinance because they normally range from 3% to 6% of your new loan amount. You should also have a clear notion of when you plan to sell your property.

Uncle Sam also subsidizes the cost of owning a home with tax breaks. If you itemize deductions on your tax return, you can write off interest paid on up to \$750,000 of debt (\$375,000 if married filing separately) to buy, build or substantially improve your home (the limit is \$1 million—\$500,000 if married filing separately—if you took out the loan before December 16, 2017). Itemizers may also be able to deduct state and local property taxes, but there's a \$10,000 combined limit (\$5,000 if married filing separately) on state and local income, sales and property tax that you can deduct.

10. Work with a Financial Advisor

When making crucial financial decisions, whether on a regular basis or when a large choice is approaching, getting expert advice can help you avoid costly mistakes. There are many different titles for advisers, depending on your needs.

Royal London did a study to understand whether financial advice also helps to improve mental health. This is an intro to what they found:

“Of course, helping to grow and manage wealth is just one of many potential benefits of financial advice. Indeed, in the current climate, we know that lots of people are feeling anxious about their finances and are worried about what the future might hold.

We wanted to explore whether speaking to a financial adviser helps to improve mental wellbeing, so we conducted this new research with over 4,000 customers. Once again, the results were conclusive. Financial advice helps to improve the emotional wellbeing of customers by making them feel more confident and in control of their financial future.

Interestingly, just like the research we ran with the ILC last year the benefits of advice are significantly amplified when the customer has regular, ongoing contact with their adviser.

We can also see from our research that clients really value the contact they have with their adviser, especially during these uncertain times. “

Some advisers require clients to have a minimum asset threshold that they manage, and compensation methods vary. You may be charged a percentage of investment assets the adviser manages for you (often about 1%) or by the hour, by the project, or on a subscription or retainer basis. You should also determine out whether an adviser can also work with you on the products such as mutual funds, annuities or insurance policies.

You can look for fee only financial planners as well, this is great if you need a financial or retirement plan analyzed and built for you. For every piece of financial advice that advisors provide, fiduciaries are obligated to act in the interests of their customers. A planner who charges by the hour might be an excellent option if you only need infrequent or one-time advice.

11. Shelter Your Legacy

Many people were prompted by the epidemic to start working on an estate plan, but there is still more work to be done: According to the 2021 Wills and Estate Planning Study by Caring.com, a website that provides information for seniors and caregivers, only one-third of Americans have a will or other estate-planning document (such as a trust or advanced health care directive). The amount increases as income does: A will, trust or other estate planning documents are used by around 39% of people with salaries between \$40,000 and \$80,000, and by about 46% of people with incomes over \$80,000.

Everyone should have an estate plan, but it becomes increasingly vital as retirement approaches. At this time of your life, you typically have more assets, so you'll want to make sure that your spouse and family would be taken care of if something were to happen to you. If you pass away without a will or trust, state law will determine how your possessions are divided. Even with a will, going through probate, the court-supervised procedure for distributing assets in the absence of a will in accordance with state law, can be costly and time-consuming. This is why a trust is a better option.

By establishing a trust, the most popular of which is a revocable living trust, you can avoid probate. (If your preferences or circumstances change, the conditions of a revocable trust may be modified.) In addition to allowing you to avoid probate and assisting in ensuring that your money goes to the individuals you select, having a trust also gives you the ability to manage how the money is used and designate someone to take over in your absence.

The estate tax exemption amounts were quadrupled by the Tax Cuts and Jobs Act of 2017. The exemption, adjusted for inflation, will be \$11.7 million per person in 2021. However, a sunset clause in the tax reform plan will force the threshold to return to \$5 million (indexed for inflation) in 2026 unless Congress extends it. Additionally, many states impose substantially lower estate and inheritance taxes.

If you have an IRA or another tax-deferred retirement account that you intend to leave to your heirs (other than your spouse), they will need to make withdrawals within 10 years of your passing, which might result in a substantial tax burden even if you don't have a multi-million-dollar estate. One option is to convert a standard IRA to a Roth IRA; withdrawals from a Roth are tax-free but non-spouse heirs must use it up within 10 years. A lawyer who specializes in estate planning can assist you sort through tax ramifications and lessen the impact on your heirs and estate.

All the above is very achievable and will set you up for financial success and peace of mind! I would be honored to be your guide!

For further information on financial planning and wellbeing check out my blog at <https://www.retirewisepro.com/blog/financial-planning-and-wellbeing>

If you would like to discuss any of these areas or need help, I would be happy to help!

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