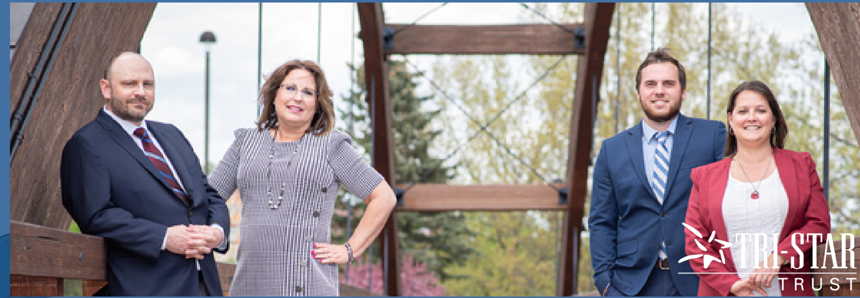
TIPS FROM YOUR

FINANCIAL COACH

AUGUST 2022



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What You Can do to Ensure a Profitable Future

There are seven key steps to consider taking now to be prepared for extended price inflation, market volatility, and a potential economic recession.

Build Emergency Funds

If Covid has taught us anything, it is that we must be prepared for sudden and significant losses of wage income, spikes in prices, and drops in portfolio value. Having enough cash to get you through these tumultuous times is the most effective method of protecting your personal economy. A broadly accepted rule of thumb is to hold enough cash to cover three to six months of your fixed, non-discretionary living expenses. Households with only one wage earner should double this amount, and retirees should keep at least 12 months of their expected withdrawal needs in a low-risk, high liquidity position to avoid selling into a market downswing.

Review Your Budget

Prices of most goods and services have increased nearly 9% over the last 12 months. If the total cost for your bills and other essentials was $100,000 last year, it's likely $109,000 this year. Where are you going to get that extra $9K? Do you have the elasticity in your budget to purchase similar, but less expensive products, or can you go without certain items until prices go back down? There are very few people who enjoy itemizing and prioritizing monthly expenses. However, taking the time to identify areas where spending can be reduced or eliminated could not be any more important than it is today.

Adjust Distributions

After confirming you have sufficient cash on hand and identifying specific areas where you can reduce spending, consider also decreasing the amount of money you have been withdrawing from investment accounts. "Investing 101" tells us that now is the time to buy low, not sell low, and any funds you can leave in your account to recover and ride out this volatility, the longer your assets will be available to you in the future.

Keep Saving

The stock market (S&P 500) was up over 16% in 2020 and 26% in 2021. As of June 30th, it has declined more than 20% putting us in bear market territory for the first time since the beginning of the Covid-19 pandemic, and the housing and debt crisis prior to that. We definitely gave some back, but if you had invested $1 in the S&P 500 on the first day of 2020, it would be valued at $1.17 today. Admittedly, it's not the double-digit returns we expect to earn from the stock market, but it's also not a total loss. In fact, these moments of low market prices are precisely when you have the best opportunity to grow your retirement savings as prices rise. Continue saving into your retirement accounts as you were before, and, if you're able, save even more!

Pay Down Debt

To temper inflation, the Federal Reserve raised interest rates by 75 basis points (0.75%) in May and signaled more rate increases are to be expected this year. We do not know how successful these efforts will be to curtail rising prices or how long it will take, but we can be certain that the cost of borrowing will increase. This will undoubtedly put a financial strain on many families with significant debt. Create a strategy to pay down high-interest, variable, credit card balances as quickly as you can, and stick with it. You will reduce future monthly payment obligations, improve your credit score, and increase the likelihood of being approved for low-interest, fixed debt in an emergency.

Do Not Panic

Market downturns are inevitable and expected. They represent the short-term cost of investing for long-term growth. Remain calm. Do not make emotional decisions. Maintain your asset allocation. Stay diversified over all asset classes and sectors. Rebalance your portfolio as you normally would. Do not liquidate and lock in losses. Touch base with your financial planner to determine if your retirement plan is still on track and if there are strategies to implement now to improve the likelihood of accomplishing your goals and living your dreams and values.

Keep Earning Income

Unfortunately, one of the most common outcomes of a recession is job loss. Now is the time to prepare yourself for that possibility. Reach out to influential members within your professional network. Update your resume. Refresh your LinkedIn page. Consider opportunities to earn extra income via side gigs. Revisit ambitions to start your own business. Train in skills that will enhance your employability. Retire a few months later.

If you have questions about your Financial Plan, please reach out to your Relationships Manager or a member of the Financial Planning Team. We are here to help you solidify your financial future.

TRI-STAR TRUST

SAGINAW 2000

FRANKENMUTH 2004

LANSING 2010

MIDLAND 2014