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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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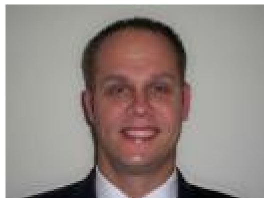

Spring is here! The markets have had a very nice start for 2013, so make it a plan to increase your savings for retirement, college, etc. If you have any questions after reading this month's newsletter, please let me know - thanks!

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During the past decade, the returns of investment-grade bonds sometimes exceeded those of stocks.

Six Retirement Planning Tips for Those Over Age 50

Reinvesting your dividends can help to grow your account balance over time.

Entering your 50s and behind in your retirement planning goals? Don't fret. You've still got time to get your financial plan back on track.

There are many steps that older investors can take to better prepare themselves financially for retirement. Here are six tips that may help you make the most of your final working years.

1. **Catch up.** If you have access to a 401(k) or other workplace-sponsored plan at work, make the $5,500 catch-up contribution that is available to participants aged 50 and older. Note that you are first required to contribute the annual employee maximum, $17,500 for 2013, before making the catch-up contribution.
2. **Fund an IRA.** Investors aged 50 and older can contribute $6,500 annually (the $5,500 annual contribution plus an additional catch-up contribution of $1,000). An investor in his or her 50s who contributes the maximum amounts to both a 401(k) and an IRA could accelerate retirement savings by more than $25,000 a year.
3. **Consider dividends.** If you do not have access to a workplace-sponsored retirement plan, or you already contribute the maximum to your qualified retirement accounts, consider stocks that offer dividend reinvestment.[1] Reinvesting your dividends can help to grow your account balance over time.
4. **Make little cuts.** Consider how you can trim expenses while continuing to enjoy life. Some suggestions for quick savings: eliminate or reduce premium cable channels that you do not watch, memberships that you do not use regularly, and frequent splurges on dining out or coffee runs. An extra $100 a month saved today could make a big difference down the road.
5. **Review strategies for postponing retirement.** You may be able to learn new skills that could increase your marketability to potential employers. Even a part-time job could reduce your need to deplete retirement assets.
6. **Don't give up.** Many preretirees falsely believe that there is nothing they can do to build retirement assets and, as a result, do nothing. Remember that you control how much you invest and, in many areas, how much you spend. Make a plan -- and stick with it.

[1]*Investing in stocks involves risk, including loss of principal.*

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Simple Strategies for Savings

Be sure to set up an automatic contribution from your paycheck or checking account into the savings vehicle you choose.

One of the few positive aspects of the recent recession has been getting Americans to refocus on saving. With so many taking hits due to job losses, investment losses, and home losses, putting together a strategy for savings has become important. But we've still got a long way to go. In a recent survey, 71% of respondents said they were saving too little.[1]

So how can you save more? The steps below should help you put a plan in motion.

Step One: Set a Goal

How much should you save? It depends on a number of factors, including:

- How much debt you have.
- Your job security.
- Whether you have a spouse and children.
- How much you're currently saving for retirement and your children's education.

Before the recession, many experts recommended keeping three to six months of living expenses in reserve in case of emergencies. Now, many have changed that recommendation to six to twelve months. It may also make sense to keep a second fund for future purchases, such as a new car or the down payment on a home.

Step Two: Set a Savings Strategy

First, examine your monthly living expenses. Factor in mortgage or rent, utilities, food, clothing, insurance, and entertainment. Also include credit card and other loan payments as well as other regular savings goals, such as retirement and college. If you don't have any income left over to set aside, consider areas where you could reduce your spending.

Be sure to set up an automatic contribution from your paycheck or checking account into the savings vehicle you choose. Keeping the money separate will reduce the chances of you tapping into the funds.

Step Three: Set an Investment Strategy

Emergency money should be deposited where you can readily access it, such as a bank or credit union savings account or a money market account.[2] Try to avoid CDs as they can charge penalties for early withdrawals.[3] To find the best interest rate, look at various institutions and consider online banks. For your "major purchases" account, you can have a bit more flexibility. Consider CDs, short-term Treasury bills, and bond mutual funds.[4]

[1]*Source: Absolute Strategy Research, "Survey of U.S. Household Finances," September 2012.*

[2]*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.*

[3]*CDs are FDIC insured and offer a fixed rate of return if held to maturity.*

[4]*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Investing in mutual funds involves risk, including loss of principal.*

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It is helpful to weigh both the benefits and risks associated with bonds and other investments.

Bond Market Outlook: Points to Ponder

During the past decade, many long-term fundamentals of investing have been turned upside down, and one example is the performance of U.S. stocks compared with bonds. Over longer time periods, such as 20 or 30 years, stocks exhibited higher average annual returns along with greater volatility.[1] Bonds, in contrast, presented lower long-term returns along with fewer ups and downs.

During the 10-year period ending December 31, 2012, the average annual return of stocks was 7.10%. For investment-grade bonds, it was 5.19%[1]. But shifting the interval can alter the pattern. For example, the 10-year period ended December 31, 2011, showed the opposite, with the average annual return of investment-grade bonds exceeding stocks, earning 5.8%, compared with 2.9% for stocks.[1] That particular period may have been a departure from the norm, but events currently present in the U.S. economy are causing observers to question the outlook in the years ahead.

Interest Rates The Federal Reserve has maintained the federal funds rate between 0.0% and 0.25% with the goal of stimulating the economy. Given how low short-term interest rates are, it is likely that they will turn upward at some point, which would present challenges for bondholders. Historically, higher interest rates have caused the prices of existing bonds to fall as investors have pursued newly issued bonds paying higher rates. This scenario presents the potential for losses for existing bondholders.

Inflation During 2012, inflation averaged 1.7%, well below the historical average of 3.0%.[2] But if inflation were to increase even higher, an investor would lose money on a bond with a yield lower than the rate of inflation. Some observers believe that if the U.S. economy begins generating stronger growth, inflation could once again spike upward.

Federal Spending Sizeable federal deficits are almost old news as the government looks for ways to stimulate the country's economic engines. While economic growth is a laudable objective, outsized federal spending may impact the financial markets. If the federal government is forced to pay higher interest rates to entice investors to fund the debt, this action could lead to higher interest rates on other types of bonds as well in response to investor demand.

Bonds can help investors balance a portfolio weighted to stock funds or other assets. When making decisions about investments, it is important to weigh both the benefits and the risks associated with bonds and any other assets that you own.

[1]Sources: Standard & Poor's; Barclays Capital. Stocks are represented by the Standard & Poor's 500 index, bonds by the Barclays U.S. Aggregate Bond Index, volatility by standard deviation. You cannot invest directly in an index. Past performance does not guarantee future results. Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

[2]Source: U.S. Bureau of Labor Statistics. Inflation is represented by the Consumer Price Index. Historical average is for the period between 1926 and 2012.

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