

FINANCIALink

Your Money Management Newsletter

TARANTO FINANCIAL SERVICES & CPAs

1263 Route 31 • Lebanon, NJ 08833
 (908) 730-7211 • Fax (908) 735-5524
 Email: gtaranto@americanportfolios.com
 www.TarantoAssociates.com

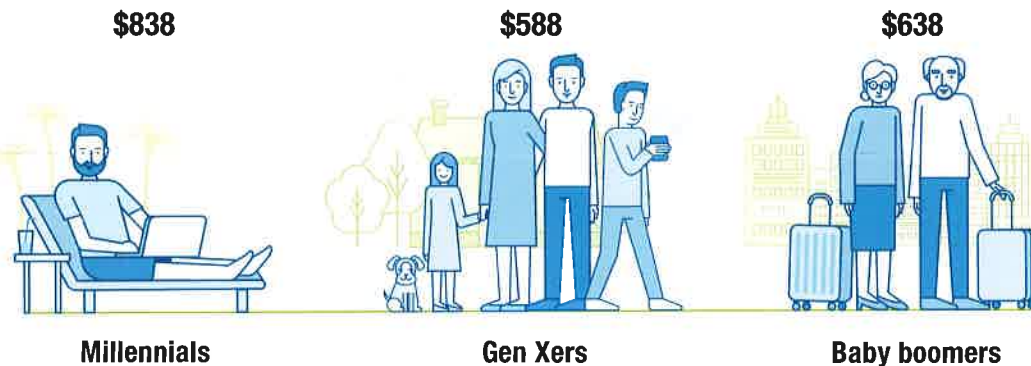


Gregory Taranto, CPA

Is Unnecessary Spending Holding You Back?

On average, millennials spend more than older generations on nonessential items such as vacations, travel, dining out, coffee drinks, and gym memberships. They are also more likely to say that such spending contributes to credit-card debt and impacts retirement savings. Gen Xers, who may be strapped with high mortgages and college expenses, spend the least on nonessentials but are much more likely than baby boomers to say that such spending has a negative effect on credit-card debt and retirement savings.

Monthly nonessential spending



Source: CNBC, January 30, 2019

\$24,723
 Average cost of a wedding in 2018, down 4% from 2017. The small drop in spending, despite a relatively strong economy, may reflect a greater focus by young couples on other priorities.

Source: The Wedding Report, 2019

Securities Offered Through:

American Portfolio Financial Services, Inc., 1263 Route 31, Lebanon, NJ 08833, Member FINRA/SIPC.

Practical insights for your **FINANCIAL GOALS**

Seeking Balance in a Mutual Fund

Maintaining an appropriate balance of stocks and bonds is one of the most fundamental concepts in constructing an investment portfolio. Stocks provide greater growth potential with higher risk and relatively low income; bonds tend to be more stable, with modest potential for growth and income. Together, they may result in a less volatile portfolio that might not grow as fast as a stock-only portfolio during a rising market, but may not lose as much during a market downturn.

Three Objectives

Balanced mutual funds attempt to follow a similar strategy. The fund manager typically strives for a specific mix, such as 60% stocks and 40% bonds, but the balance might vary within limits spelled out in the prospectus. Balanced funds generally have three objectives: conserve principal, provide income, and pursue long-term growth. Of course, there is no guarantee that a fund will meet its objectives.

When investing in a balanced fund, you should consider the fund's asset mix, objectives, and rebalancing guidelines as the asset mix changes due to market performance. The fund manager may rebalance to keep a balanced fund on track, but this could create a taxable event for investors.

Core Holding

Although balanced funds typically include a variety of stocks and bonds, they are generally not intended to be

the only investment in a portfolio because they may not be sufficiently diversified. Diversification refers to the mix of investments within a given asset class.

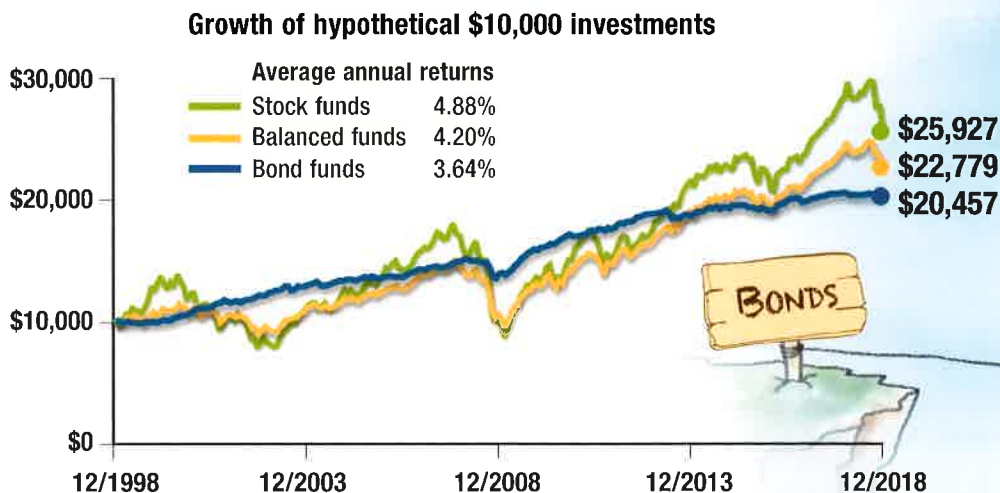
Instead, a balanced fund could be a core holding that enables you to pursue diversification and other goals through a wider range of investments. For example, you may want to invest in other asset classes, hold a wider variety of individual securities, and/or add funds that focus on different types of stocks and bonds than those in the balanced fund. Keep in mind that as you change the asset allocation and diversification of your portfolio, you may also be changing the level of risk.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds, including balanced funds, are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus — which contains this and other information about the investment company — can be obtained from your financial professional. You should read the prospectus carefully before investing.

Lower Highs, Higher Lows

During the 20-year period ending in 2018, balanced funds were less volatile than stock funds, while producing higher returns than bond funds.



Source: Thomson Reuters, 2019, for the period 12/31/1998 to 12/31/2018. Equity funds are represented by the Thomson US: All Equity – MF Index, balanced funds by the Thomson US: Balanced – Domestic – MF Index, and bond funds by the Thomson US: All Gen Bond – MF Index. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. The results do not include the effects of fees, expenses, and taxes. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Four Tips for Navigating a Career Change

Changing careers can be rewarding for many reasons, but major transitions don't always go smoothly. Your career shift may take longer than expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Consider these four tips to help ease the financial impact of a career transition.

1. Do Your Homework

Before you quit your current job, make sure that you clearly understand the steps involved in moving into your desired career, including the financial and personal consequences. How long will it take you to transition from one career to the next? What are the job prospects in your new field? How will changing careers affect your income and expenses in the short and long term? Is your spouse/partner on board?

You should also prepare a realistic budget and timeline for achieving your career goals. Pay off credit cards and loans, and build an emergency cash reserve that you can rely on during your transition. If possible, keep working in your current job while you're preparing for your new career. Having a stable source of income and benefits can make the process much less stressful.

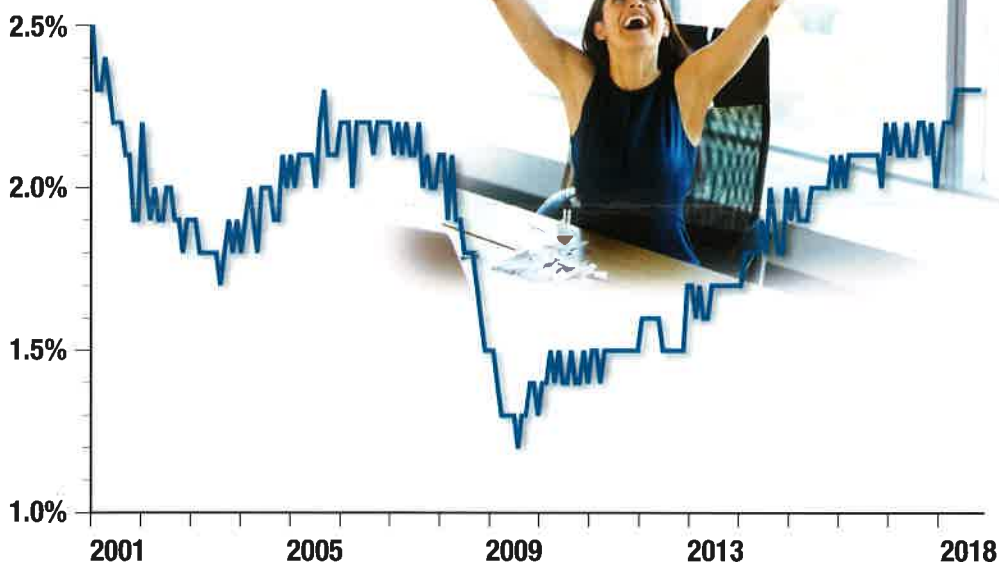
2. Protect Your Retirement

Many people tend to look at their retirement savings as an easy source of funds when confronted with new expenses or a temporary need for cash. But raiding your retirement savings to satisfy a short-term cash crunch may substantially limit your options in the future. Although you might think you'll be able to make up the difference in your retirement account later — especially if your new career offers a higher salary — that may be easier said than done. In addition, you could owe income taxes and penalties for early withdrawals of retirement funds.

Calling It Quits

The quits rate represents the share of workers who voluntarily leave their jobs, whether to take a new position, raise children, retire, or any other reason. In 2018, U.S. workers quit at the highest rates since 2005.

U.S. total nonfarm quits rate (monthly, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, 2019

3. Seek Credible Advice

When planning a career move, consider talking to people who will understand some of the hurdles you'll face when changing professions or shifting to a new industry or job. This may include a career counselor, a small-business representative, a graduate school professor, or an individual who currently holds a job in your desired field.

4. Consider Education Costs

You might be thinking about pursuing additional education to prepare for your new career. But before applying to any program, ask yourself whether you will be more marketable after earning your degree.

In your search for tuition money, look first to your current employer.

Some employers might cover the full cost of tuition, while others may cap reimbursement at a specific dollar amount. Generally, you may be able to exclude up to \$5,250 of qualifying educational assistance benefits from your taxable income.

It's likely that you'll have to satisfy requirements set by your employer to be eligible for reimbursement benefits. Check with your human resources department to learn more about tuition reimbursement qualifications. Be sure to find out whether you can continue to work at your company while you attend school part-time.

Students attending college or graduate school on at least a half-time basis may be eligible for federal student loans. Also, at tax time, you might qualify for certain tax benefits.

What's the Real Return on Your Investments?

Changing tax rates, steady inflation, and higher interest rates — put them together, and this might be a good time to consider the *real return* on your investments.

As an investor, you probably pay attention to *nominal return*, which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. However, to estimate actual income or growth potential in order to target financial goals — for example, a certain level of retirement income — it's important to consider the effects of taxes and inflation. The remaining increase or decrease is your real return.

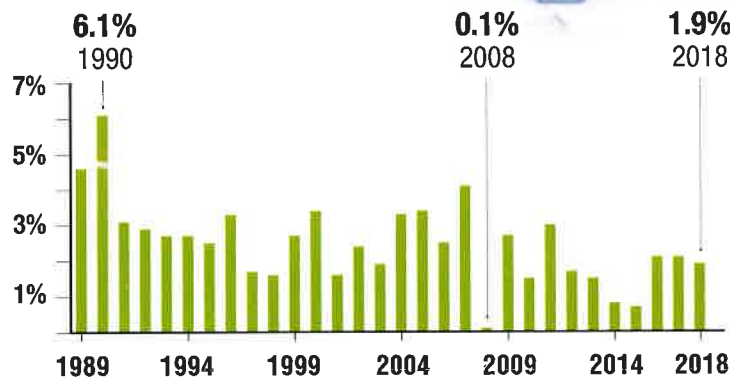
Let's say you want to purchase a bank-issued certificate of deposit (CD), because you like the lower risk and fixed interest rate that a CD can offer. Rates on CDs have risen, and you might find a two- or three-year CD that offers as much as 3% interest. That could be appealing, but if you're taxed at the 22% federal income tax rate, roughly 0.66% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 2.34%, but you should consider the purchasing power of the interest. Annual inflation was about 2% from 2016 to 2018, and the 30-year average was 2.5% (see chart). After factoring in the effect of inflation, the real return on your CD investment could approach zero and may turn negative if inflation rises. If so, you might lose purchasing power not only on the interest but also on the principal.

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually

Eroding Purchasing Power

Annual rate of inflation, based on change in the Consumer Price Index



Source: U.S. Bureau of Labor Statistics, 2019
(December year-over-year change in CPI-U)

earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to \$250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than the original cost.

The information in this newsletter is not intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Broadridge Advisor Solutions. © 2019 Broadridge Investor Communication Solutions, Inc.

Would you like to discuss the real return on your investments? Call for an appointment today.

Working toward a better financial future,