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The Bulldog Bulletin

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How Flexible Is Your Financial Plan?

When it comes to flexibility in a financial plan, it's a delicate balancing act: it is important to maintain enough flexibility so your financial plan can accommodate unexpected events that are out of your control (like the loss of a job, unexpected illness, market downturn, or tax rate increase). On the other hand, a sound financial plan needs to be firmly grounded by factors you can control (like how much you save and spend) so even in the face of unexpected events, following your financial plan gets you to where you want to be.

When you develop a financial plan, you must make certain assumptions, many of which are out of your control:

Taxes — The notoriously complicated U.S. tax code will affect your financial plan in a number of ways. For one, your effective tax rate will change as your income changes. Also, changes to the tax code itself can affect your financial plan, often dramatically. Fortunately, changes aren't typically made every year; and because Congress sets tax policy, most changes in the tax code are announced in advance of taking effect — allowing you time to plan how those changes might affect your financial plan.

Income — We all hope our income will rise as we move forward in our careers. Typically, those kinds of income changes are predictable — maybe it's a 3% raise every year or a 10% raise every three years. More dramatic yet still predictable income changes can happen when one spouse voluntarily stops or starts

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Should You Stay or Should You Go?

Does your retirement plan involve long days of golf in sunny Arizona? Perhaps you're dreaming of a beachside condo in Florida. Or maybe you want to explore life in a foreign country. Of course, there's always the possibility of just staying put, close to family, friends, and a familiar community. The options are endless and overwhelming.

Nonetheless, choosing a place to live is one of the most important decisions you can make when planning for retirement. And it's not always an easy choice to make. You'll have to weigh financial, emotional, and lifestyle issues before you can decide where you should live after you stop working. Below are some tips that may help you make your choice.

Questions to Ask Yourself

You can start your retirement housing search by asking yourself some or all of these questions:

- ❍ Where do I really want to live?
- ❍ Where can I afford to live?
- ❍ If I'd like to relocate, how much will that cost?
- ❍ Will relocating allow me to save money on housing and other expenses?
- ❍ Can I save on taxes by moving to another area?
- ❍ If I'd like to move, what price can I get for my house?
- ❍ Where do my friends and family live?

Deciding on the answers to these questions is the first step in preparing to make a decision about where to live in retirement.

Making the Choice

So, what if your answers to the above questions suggest relocation is

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How Flexible?

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working. The loss of a job or dramatic decrease in work hours can cause unexpected changes in income.

Health — Your and your spouse's health are significant factors in your financial plan for two reasons: first, because health is a big determinant of one's ability to earn income; and second, because health care costs are often a large expense, especially for the elderly. As you age, it's important to think about changing your assumptions regarding your health. Maybe you reduce the income you expect because you won't be able to work long hours anymore. Or you increase the healthcare related expenses you plan for. You can also take steps to mitigate the impact of health changes by saving for medical expenses in a tax-favored health plan like a health savings account (HSA) or flexible spending arrangement (FSA) and by buying disability and long-term-care insurance.

Life — Beyond job losses and health events that can impact your financial plan, other major life events can have a big impact as well. Whether it's good or bad, expected or unexpected, events like the birth of a child, marriage or divorce, a spouse's death, or a relocation will impact your financial plan. Some you can plan for, some you can't; the point is to be aware that these kinds of events typically require a review of your financial plan.

Economy — For most of us, our financial plans are based on the assumption that our investments will earn a certain average return in the market. Those assumptions affect decisions we make about our plans. For example, the amount you need to save every month to retire at age 70 is larger or smaller the higher or lower your assumption about investment returns. The best way to make these assumptions is to base them on long-term historical returns in relevant market indices.

That is not to say, of course, that these assumptions will always be correct; anyone who had money invested in the stock market in the fall of 2008 understands that the stock market can turn those assumptions on their heads in a single day. But given that we have to make assumptions, using historical returns is the best way to do it.

Because there are so many factors affecting your financial plan that you can't control, it's critical to know the factors you can control and stay on track in those areas.

Live within your means — When you keep your expenses (including savings and investments) less than your income, you give yourself more flexibility to accommodate unexpected changes that you can't control. If you have some breathing space in your budget every month, you can more easily accommodate a higher tax rate or economic downturn without having to alter your financial plan.

Have a rainy-day fund — Make sure to have at least 3–6 months worth of living expenses in an easily accessible, liquid fund you can draw upon in the event of a rainy day — an emergency or unexpected situation. This savings should be set aside from all other savings and investments and only used for true emergency expenses — like in case of a job loss or illness. With an adequate rainy-day fund, you can deal with unexpected events without having to dilute or erode your financial plan.

Revisit your plan regularly — The number-one key to achieving your financial goals is to review and, if necessary, revise your financial plan regularly — at least once a year. That way you can make adjustments for all factors out of your control that have changed, for better or worse. If you haven't revisited your financial plan in the last year or need to develop one, please call. ❍❍❍

4 Reasons to Encourage Part-Time Jobs

Don't feel guilty about your children working while attending college or feel that a part-time job will interfere with their college experience. Working as little as a few hours a week can be remarkably beneficial.

It boosts accountability — Encouraging your children to work part-time as soon as possible and setting a portion of their earnings away for college can give them a much better appreciation for their college education. Nonworking students can struggle to understand just how expensive their tuition and living expenses are and the sacrifices involved in paying those costs.

It can cut down on costs — Even the smallest contributions can quickly accumulate. Whether they contribute $50 or $500 a month, it's either money they won't owe after graduation or money saved that you can put toward your retirement or investments.

It teaches life skills — Part-time jobs provide teenagers and young adults with a different set of skills than they'll derive in class. Because they're interacting more with adults in a real-world setting, they'll develop the vital communication and problem-solving skills they'll need in their postcollege career. Working even a few hours a week while attending school allows them to master a work/life balance.

It encourages networking — There's a well-known saying that success is closely linked with who you know. Sure, they'll make friends in the dorm, but a part-time job encourages them to connect with peers on a different level that could lead to valuable opportunities in the future. A job allows them to further develop their individual talents and strengths. ❍❍❍

Should You?

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a good idea? It's hardly an unusual situation. Getting a fresh start in retirement is a dream for many. But depending on your current financial situation, it may not be realistic. Many baby boomers saw their home values plummet during the most recent financial crisis, and some are still underwater on their homes. Others still have hefty mortgage payments heading into retirement. Some people who want to relocate simply may not have the financial ability to do so.

If you are interested in moving, it pays to do your homework. Looking into housing in your ideal location is just the start. You'll also want to think about how much you can get from the sale of your current home (be realistic). Taxes are another issue. Some retirees can save money by moving from a high-tax state to one that offers tax breaks to retirees, like Georgia, Mississippi, or Illinois. Another thing to consider? The cost of travel back to your original home if you still have family and friends living there.

According to a study by the Demand Institute, while most boomers won't relocate in retirement, a significant minority — 37% — are planning to do so. Of those who do expect to relocate, roughly 40% plan to upsize rather than downsize, choosing larger, more expensive properties than their current residence. If you count yourself among that number, make sure you have the financial resources to turn that dream into a reality.

If you're sure that relocating is the right choice for you, don't rush into a decision. Use a trial run of a month or two in your ideal destination to see how you really like living there. A place that's great to visit for a week might lose its luster after a month. In addition to obvious considerations like weather, make sure you think about amenities both fun and not so fun. Are there hospitals nearby? What about public transit in case you're eventually unable to drive? Will you be part of a ready-made retirement community or will you be on your own when it comes to making new social connections? Are the amenities you'd like to use affordable? Knowing the answers to these questions in advance can help you avoid making costly financial mistakes.

Please call if you'd like to discuss this in more detail. ❍❍❍

Incorporating Bonds into Your Portfolio

When selecting investments for your portfolio, you should custom fit your investments to your personal situation and specific financial goals. By taking the time to consider certain specifics about bond investing, you can determine the appropriate way to include bonds in your portfolio.

Identify your investment goals. An investor focused on long-term growth and capital appreciation with no need for current income will have less need for bonds. On the other hand, an investor looking for a balance of income and capital appreciation will have more bonds in his/her portfolio. An investor primarily interested in interest income will have a significant portion of his/her portfolio devoted to bonds.

Know your investment time frame. Investors often purchase bonds with long maturity dates, because the yield on bonds tends to increase as maturity dates lengthen. However, if you purchase a long-term bond and sell it before maturity, interest rate changes can significantly affect the bond's market value. Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you need your principal.

Determine your risk tolerance. Typically, the higher a bond's return, the greater its risk. Thus, U.S. Treasury securities, which are considered one of the safest bonds, typically carry lower interest rates than municipal or corporate bonds. Make sure you understand the risks involved before purchasing a specific bond.

Understand the tax ramifications. Different types of bonds are taxed differently. Interest income from U.S. Treasury securities is exempt from state and local income taxes but is subject to federal income taxes. Interest income from municipal bonds is exempt from federal income taxes and typically state and local income taxes for residents in the issuing state. Interest income from corporate bonds is subject to federal and state income taxes. Investors in higher marginal tax brackets typically find tax exemption of interest income more valuable. Any exemption from income taxes applies only to interest income, so capital gains from the sale of a bond are still subject to income taxes.

Consider specific bond variables. Before you purchase a specific bond, make sure you fully understand its features, including maturity date, credit rating, call provisions, coupon rate, yield to maturity, price, and tax ramifications of interest income.

Please feel free to call if you would like help evaluating bonds for your portfolio. ❍❍❍

Financial Data

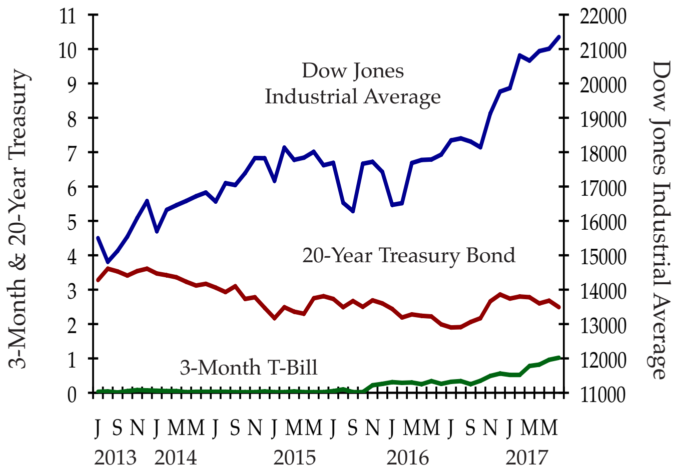
Indicator	Month-end Apr-17	May-17	Jun-17	Dec-16	Jun-16
Prime rate	4.00	4.00	4.25	3.75	3.50
Money market rate	0.30	0.33	0.33	0.29	0.27
3-month T-bill yield	0.82	0.96	1.02	0.56	0.26
20-year T-bond yield	2.60	2.68	2.49	2.86	1.99
Dow Jones Corp.	3.09	3.04	2.99	3.17	2.78
30-year fixed mortgage	3.57	3.46	3.49	3.68	2.97
GDP (adj. annual rate)#	+3.50	+2.10	+1.40	+2.10	+0.80

Indicator	Month-end Apr-17	May-17	Jun-17	% Change YTD	12-Mon.
Dow Jones Industrials	20940.51	21008.65	21349.63	8.0%	19.1%
Standard & Poor's 500	2384.20	2411.80	2423.41	8.2%	15.5%
Nasdaq Composite	6047.61	6198.52	6140.42	14.1%	26.8%
Gold	1266.45	1266.20	1242.25	7.2%	-5.9%
Consumer price index@	243.80	244.50	244.70	1.4%	1.9%
Unemployment rate@	4.50	4.40	4.30	-6.5%	-8.5%
Index of leading ind.@	126.50	126.60	127.00	2.4%	3.0%

\# — 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2013 to June 2017



Past performance is not a guarantee of future results.

News and Announcements

Consider Maturity Dates

Bonds can be purchased with maturity dates ranging from several weeks to several decades. Before deciding on a maturity date, review how that date affects investment risk and your ability to pursue your investment goals.

Typically, yield increases as the maturity date lengthens, since you assume more risk by holding a bond for a longer time. Investors are often tempted to purchase bonds with long maturity dates to lock in higher yields, but that strategy should be used with care. If you purchase a long-term bond knowing you'll need to sell before the maturity date, interest rate changes can significantly affect the bond's market value. Two fundamental concepts about bond investing apply:

- **Interest rates and bond prices move in opposite directions.** A bond's price rises when interest rates fall and declines when interest rates rise. The existing bond's price must change to provide the same yield to maturity as an equivalent, newly issued bond with prevailing interest rates. You can eliminate the effects of interest rate changes by holding the bond to maturity, when you will receive the full principal amount.
- **Bonds with longer maturities are more significantly affected by interest rate changes.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, the bond's price must change more to compensate for the interest rate change.

Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you'll need your principal. In many cases, you may not know exactly when that will be, but you should at least know whether you are investing for the short, intermediate, or long term. Please call if you'd like to discuss bond maturities in more detail. ❍❍❍

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