Financial *focus*

Alliance of Comprehensive Planners

FALL 2021

In This Issue

Three Things Anyone Can Do to Plug Financial Leaks

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There's no shortage of financial advice to be found on the internet, social media, the 24-hour news cycle, and even from your friends and family. We're bombarded with new opportunities to save, invest, and yes, even lose money. Surrounded by all the noise, a lot of folks simply do nothing. Ironically, in many cases, doing nothing is often the best course of action. As Jack Bogle famously said, "Don't do something, just stand there!"

There are, however, a few things we can all do before we just stand there, to make sure we're not leaking money from our financial ship. What are the most important steps?

Only pay for what you use. Sounds obvious, right? At 91 years old, my mom is a member of the Greatest Generation. She still saves every receipt and checks each one off against her credit card statements every month. She's a Depression kid—not a penny gets spent without purpose. She has the advantage of not being on the internet subscribing to all sorts of websites, software packages, streaming entertainment, and all the rest of it. But, let's be honest, few of us check our credit card and bank statements that closely every month.

I'm a pragmatist; I'm not saying you need to become like my mom and keep every scrap of paper to double-check. At least once a year—I recommend around tax time or the new year—check those statements for expenses you don't need anymore, or maybe never even needed in the first place. I'm as guilty as anyone of letting stuff like this slip. A few years ago, I finally looked closer into a monthly charge on my Amex bill that turned out to be from my old sushi business, which I'd sold two years before! These companies are clever, and they give the charges generic names, which can look like something else you might otherwise be buying, so as not to raise any flags that might lead you to cancel the service. Last year I found the craziest example yet on one of my credit cards: someone was using my credit card fraudulently to pay for "fraud protection" from one of the credit agencies.

A few phone calls solved each of these mysteries and added $30 and $50 back into my bank account every month. It's true that the companies often make you jump through hoops to cancel, but it's typically worth it to put money back in your pocket.

Take a look at your investment accounts. Another obvious suggestion? Maybe, although it's much more important and more overlooked than you might think. In my experience, many folks get their investment statements in the mail and just stick them in the junk drawer or throw them in a pile in the home office. What's in there? Do you really know?

Maybe you know what's in your taxable brokerage account if you're particularly interested in the stock market. But what about your 401(k)? Or the IRA you opened twenty years ago when you got your first job? What are the chances that the investment options you selected years ago are still the right ones for you today? A lot has changed in the last decade or so. Did you know to look for low-cost index funds back in 1998? Even if you did, there's a good chance that they may not have been part of the investment menu back then. Look at the current offerings for each account.

I've seen plenty of legacy 401(k)s and IRAs stuffed with high fee mutual funds and even company stock that people never bothered to sell after moving on to different jobs. One client ended up saving more than 1% in annual fees after moving into index funds. One percent added to your investment returns every year, year after year, makes a huge difference when it comes time to retire. Pay yourself that money.

Set it and forget it. One of the best things anyone can do to prepare for the future is to save and invest. There are a lot of demands placed on our money, however, and it's super easy to spend it if you've got it. In the old days, which really wasn't that long ago, you might have had to write a check, or multiple checks, each month into your different savings and investment accounts. Nowadays, it's so much easier to set up automated savings and investing that it's the ideal way to go. If you're not doing this already, or if you think it's too basic, please think again. Start small if you must but begin to populate those savings accounts. Once you have your automated savings set up, and stop leaking money by spending before you save, you can afford to take a break and forget about your finances for a while.

Should I Buy a House **Now?**

By Keith Spencer, CFP®, CSLP®
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Several of my clients are in the process of either buying or selling a home. **The top two questions for those who are buying are:**

1. Should I buy a house now or should I wait?
2. How much house can I afford?

Consideration #1: Direction of house values

Question: Do you feel like you can predict the future?

For me, the answer is a big ol' no, I can't. When I think about "timing the market," I try to remember the adage, "time in the market is better than timing the market."

Is the housing market overpriced?

I think it kind of feels like it did in 2006-2007, when housing prices were running up like crazy. However, the underlying health of the market and the financial condition of the consumer are quite different now, as lenders are more judicious about to whom they lend and the average credit score for borrowers is MUCH higher. So, although it may feel similar, it's quite different. In any case, I don't think someone should try to time the market by waiting to buy a home, if buying a home otherwise makes sense for them.

Consideration #2: Timing

Question: Are you going to be staying in the home for at least several years?

If not, you may not want to purchase now. Buying a home is expensive. And not just the price tag. There are a lot of fees associated with buying and selling, so you need a good amount of time in the home to make all those fees worth it.

Consideration #3: Cash flow

Question: How much can you afford monthly?

There's a good rule of thumb that says you want to aim to purchase a home that's two to three and a half times your household gross income. If you're in a high-priced area, then you can stretch that to four to five times your income.

What will buying a home do to your cash flow? Will you still be able to save for other important goals? As you think about this, don't forget about housing expenses other than the mortgage payment, such as:

- Property taxes
- Home, earthquake, and/or flood insurance
- HOA fees
- Home maintenance (a common rule of thumb is 1% of the home's value per year)
- Utilities
- Extra commuting costs
- PMI (private mortgage insurance) if you don't put down a big enough down payment

Consideration #4: Emergency fund

Question: How much cash will you have left after the purchase (and other costs)?

The first part is: How much of a down payment will you put down?

It's always best to avoid PMI by coming up with a 20% down payment. However, if that is not possible, PMI can be a helpful tool to enable you to buy a home if you can otherwise afford it monthly. I think the sweet spot for "how much mortgage to have" is 50%-80% of the home's value. You'll avoid PMI, you'll get good rates in that range, and you won't be tying up too much cash into your home.

The second part is: How much cash do you have available?

You'll obviously be using a lot of that cash for the purchase itself. But don't forget about costs you might incur shortly after the purchase, such as new furniture for the living room or getting some things fixed. The danger of spending so much cash is that you could be exposing yourself to a lot of risk by not having a big enough emergency fund left over.

I think a minimum amount of cash to have on hand after the home purchase and paying for other costs should be 30% of your annual household gross income, depending on how reliable that income is and the size of your mortgage.

Consideration #5: Asset allocation

Question: What percentage of your total assets would be represented by real estate?

Real estate provides a separate asset class that behaves differently than stocks, bonds, and cash. It can be especially helpful during periods of inflation, as real estate tends to keep up with inflation. Ideally, there should be some semblance of balance among the three areas (real estate, stocks, and bonds/cash).

If you're younger and haven't had time to build up your net worth, real estate may temporarily make up a huge percentage of your total assets if you purchase a house. I do not think this is a reason to forego buying a home. Rather, I see it as informing what you do after buying the home. You'll want to make sure you're still able to save a good amount of money each month so that you can rapidly build up your stocks, bonds, and cash to bring more balance to your overall portfolio.

In summary: Should you buy a house now? Absolutely yes, if it's a good financial move for you after considering the above five factors.

Spending Cryptocurrency

By Cortney Giles, CFP®, EA, CRPC
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In part 1 of our three-part series, we introduced cryptocurrency in general. Now, in part 2, let's explore the challenges and opportunities that exist for those hoping to earn, store, and spend their Bitcoin or similar cryptoassets.

The Crypto-Possibilities

As described in part 1, cryptocurrency is typically driven "by and for the people" in peer-to-peer exchanges. At least in theory, this permits it to flow more quickly and cheaply, with fewer fees and administrative hurdles. Ideally, cryptocurrency offers the potential to:

• **Push Past Boundaries**: Successful cryptocurrencies and the blockchain technologies behind them could offer a faster, cheaper, or at least an additional way, to conduct domestic and international commerce alike.

• **Democratize Currency Exchange**: Cryptocurrency as a means of exchange may particularly appeal to those who are not big fans of government oversight, or who live in a country that lacks dependable currency of its own.

• **Make Money More "Programmable"**: By optimizing different blockchains for different purposes, it may be possible to "program" a cryptocurrency to adhere to certain rules or conditions during an exchange. For example, a cryptocurrency could potentially be programmed to act as a digital trust, contract, or escrow reserve, which could only be unlocked when certain conditions were met.

The Crypto-Challenges

On the flip side of the coin, many of the same qualities that appeal to cryptocurrency holders can also create challenges, even for established currencies like Bitcoin.

• **Competition:** What if a competitor invents a better mousetrap, and the cryptocurrency you're using falls out of favor? With no central authority in charge of safeguarding your ownership or preserving the worth of your cryptocurrency, its purchasing power may or may not endure. As one chief investment officer observed in a January 2021 Financial Advisor piece, "There is little in our view to stop a cryptocurrency's price from going to zero when a better designed version is launched or if regulatory changes stifle sentiment."

• **Theft:** Recent evidence suggests bitcoin theft decreased dramatically in 2020… or at least became harder to detect. Either way, cryptocurrency remains an appealing target for cyberthieves with long histories of finding new nefarious strategies, even as older ones are shut down. Granted, the same thing can happen to your legal tender, but there is typically more government protection and insurance coverage in place for more regulated accounts.

• **Loss:** Your cryptocurrency "wallet" is typically secured through a password that you – ***and only you*** – know; consequences are dire if you lose that password (or if a thief does get hold of it). Best case, you may be able to pay a professional 10%–20% to recover your coins. Worst case, your coins may be gone for good. A January 2021 BBC piece reported, "Currently, about $140bn worth of Bitcoin is lost or left in wallets that cannot be accessed."

• **Supply and Demand:** A government can seek to stabilize its currency's spending power by adding to or pulling back on supply as demand rises or falls. In contrast, Bitcoin's supply is fixed and finite. With a maximum set at 21 million Bitcoin, approximately 18.6 million are already in circulation as of January 2021, with no mechanism for reducing that supply when demand declines. Time will tell whether this model remains a sustainable way to store value.

• **Government Regulation:** Speaking of governments, since cryptocurrency was uncharted (unregulated) territory until quite recently, the rules of engagement are still largely under construction. As such, your cryptocurrency could suddenly become more or less appealing to hold, trade, or exchange, depending on countries' rapidly evolving reporting requirements, taxable ramifications, judicial findings, and other regulatory acts.

• **Energy Consumption:** Last but not least, cryptocurrency mining centers around the globe are using ***enormous*** amounts of electricity. In December 2020, MarketWatch reported that Bitcoin production alone was annually "gobbling up the energy of a country of more than 200 million people." The same report notes that most production is coming out of coal-fueled China, where "bitcoin production is likely to be particularly dirty." Iran recently shut down most of its bitcoin processing centers as the country faced rolling blackouts and toxic smog in Tehran. In short, many cryptocurrencies aren't exactly "green" money.

Given the challenges, no wonder one tweet from a celebrity can still send a Bitcoin's spending power sinking or skyrocketing overnight. You don't generally see that from a dollar bill!

Still there are many who believe cryptocurrency is here to stay. Are they right? Will cryptocurrency prevail, and ultimately become a widely accepted means of exchange? If so, which ones will sink? Which will swim? Under what circumstances?

We wouldn't bet your life's savings on any particular outcome – which brings us to our next topic of conversation: Does cryptocurrency belong in your evidence-based investment portfolio? Our short answer is no – at the very least, not yet. In part 3, we'll explain why.

Give Back, Get Back: **Being a Mentor in Retirement**

By Steve Martin, CFP®, CPA, JD
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Retirement can be a difficult transition. We go from work where we used years of experience, wisdom, and our creativity in solving problems and making a difference to suddenly not always feeling that we are actively using our experience and skills. There are a variety of ways to stay engaged in retirement, and mentoring is one of my favorites.

Mentoring can be a fulfilling way for retirees to make the most of their professional or non-professional skills, give back, and stay active. Mentoring activities can range from helping youth do homework to helping junior executives run their businesses to many other possibilities.

Tips for Being a Mentor in Retirement
Here are four tips that can help both mentor and mentee get the most out of the relationship (as a mentor, you may also receive specific guidelines from the mentoring organization).

1. Tie to Your Values and Skills
One of the wonderful things about retirement is that you have the opportunity to participate in activities that tie to your values and passions. Choosing your volunteer activities—including being a mentor—should not be any different. What are the causes that are important to you? What kind of people do you want to engage with and help? Bringing passion to a mentoring relationship will undoubtedly allow you to make an even bigger impact on the mentee.

Similarly, you should ask yourself what special skills or knowledge you may be able to pass down to others. Successful communities find ways to pass knowledge from one generation to the next, and your insight and wisdom can be invaluable. However, don't make the mistake of thinking you need to know everything or that you cannot learn new skills or knowledge to use in such a relationship. Sometimes, being a successful mentor can consist of just being there with words of encouragement.

2. Set Expectations
If your mentoring organization has rules and expectations, you will obviously want to make sure you can meet those expectations. Share those expectations with the mentee, when appropriate. If you are not in a formal organization, setting expectations with the mentee is critical for both of you to get the most out of the experience.

Setting the schedule is important and may include stating when and where will you meet. Who will be responsible for scheduling? How long do both of you expect the relationship to last? Setting a timeframe will allow both of you to be more focused while providing a clear end date (if needed).

Of course, you will want to establish the purpose of the mentorship. What are the goals at the end of the day? What is the mentee looking to learn or accomplish?

You will also want to understand the boundaries of communication and whether any work will be put in between the meetings. Is the mentee going to have benchmarks to meet, and how will those be tracked? Without such expectations, either or both of the parties may get frustrated, and the potential benefits of the mentor relationship may not be fully realized.

3. Develop a Personal Relationship
Whether you are mentoring a youth or someone in mid-career, trust is important. As a mentor, you should be willing to break the ice and open up about your family, career, and hobbies. Try to find a connection while also celebrating differences.

You will want take notes (mentally, if not written) so that you can recall some of these personal items later. The more mentees believe that you are personally concerned about them, the more they will put into the mentee relationship and be attentive to your feedback.

4. Be Honest, Encouraging, and Thought-provoking
You will want to find the delicate balance between providing constructive feedback and providing encouragement. In many mentor relationships, you may not necessarily want to provide conclusive statements or answers to all the questions. A large part of learning in any environment is learning how to think. Having a dialogue with mentees as they find the solution will not only help them improve their critical thinking skills, but it will also elevate their confidence for problem solving.

Where to Find Opportunities to Become a Mentor

- Your existing community, formal and informal: church, school (elementary to high school), neighbors, family
- Previous workplaces (whether through that employer or former co-workers)
- Industry associations
- Formal youth organizations such as Big Brothers Big Sisters, YMCA, Boys & Girls Clubs, etc
- Your alma mater
- SCORE
- https://www.mentoring.org/
- https://americorps.gov/serve/americorps-seniors

The possibilities are endless. What is available in your area? Where do you most want to make an impact?

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