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Debt's Role in Your Financial Plan

As nice as it may seem, achieving debt-free status isn't always the best way to reach your financial goals. Take a look, for example, at mortgage debt. Most people can't afford to pay cash for a home, so they borrow some portion of the purchase price.

On the other hand, you don't have to look any further than the recent history of the real estate market to see how too much mortgage debt can cause significant financial problems.

What Is Smart Debt?

Smart debt is the kind that generates more advantages than disadvantages. Here's how to recognize it:

- **You already have the free cash flow or liquid assets to cover the required monthly payments.** This means that you aren't counting on additional income from the asset you acquire to make the payments. While some people might find this advice too conservative, it's important to remember that the income an asset is supposed to generate can be speculative. If it's rental income, you may not find tenants or you might lose the ones already in place. If it's short-term proceeds from flipping a property, the market may not support the higher price you're hoping for. And if it's a new business, the customers might not be there in the numbers you need.
- **The payments don't prevent you from addressing important financial objectives.** Debt that reduces the amount you can save for a child's education or your retirement may not be smart debt.
- **It's to cover the big-ticket items you need to earn a living.** For most people, this means a reliable car. For the self-employed, it can also mean capital equipment or an addition to your house for your business.
- **It's tax deductible.** This generally applies only to mortgage interest, but there are limitations. The IRS doesn't let you take a deduction for mortgage debt beyond $1 million on a first or second home, and that's reduced to $500,000 if you're married but filing separately. It also disallows taking a deduction for interest on home-equity loans totaling more than $100,000.

Continued on page 2

Calendar of Events

2017 Halftime Report
Tues, July 11, 6:00 – 8:30 p.m. | Drury Inn & Suites, Louisville | Dinner Provided
Thurs, July 13, 6:00 – 8:30 p.m. | Clifty Falls Restaurant, Madison | Dinner Provided
Mon, July 17, 6:00 – 8:30 p.m. | Two Rivers Restaurant, General Butler State Park | Dinner Provided

2017 State of the Markets
Mon, August 21, 6:00 – 8:30 p.m. | Clifty Falls Restaurant, Madison | Dinner Provided
Tues, August 22, 6:00 – 8:30 p.m. | Two Rivers Restaurant, General Butler State Park | Dinner Provided
*Louisville dates coming soon!

RSVP now for you, your friends, family, and coworkers who would benefit from these important discussions.

Debt's Role

Continued from page 1

- **It preserves or improves the value of your home.** Financing major repairs, remodeling, or making your home more efficient with debt can be a smart move, as long as it doesn't violate the principles suggested above.
- **It doesn't push your debt-to-income ratios too high.** Financial experts and banks recommend keeping your total monthly debt payments (including rent or mortgage) at or below 40% of your monthly take-home income, and payments that don't keep a roof over your head to a maximum of 20%. Go beyond these limits, and you may find it hard to be approved for a loan when you need it.
- **It doesn't reduce your credit rating.** This comes into play chiefly as a result of credit card borrowing. Your credit rating suffers when your credit card balances come close to your limit. Consumer credit experts say you should aim to keep your balances at less than 35% of your credit limit to keep your FICO scores from being reduced.

Strategies to Reduce Debt

If you're uncomfortable with your level of debt, take action now and stay consistent over time.

✔ **Refinance your mortgage.** If you haven't missed any payments and have equity in your home (it's worth at least what you owe), you may be able to reduce your mortgage payments by refinancing. Even if you have to finance closing costs, mortgage rates might be so much lower than your current rate that you still come out ahead. You might even be able to cash out some untapped equity in your home and pay off some unsecured debt — replacing high-interest, nondeductible debt with low-interest, tax-deductible debt.

✔ **Reduce your spending on non-essential items.** Cut out as much of your monthly budget as possible, like restaurant meals, entertainment, subscriptions, premium TV packages, and expensive mobile phone data plans. Trade a luxury car you're still making payments on for a less-expensive one.

✔ **Take time to review what you spend monthly.** Incidentals you pay for with cash and cards can add up without you being aware of how much you're actually spending. Compiling receipts and reviewing how much you've spent that month can help you see trends in your spending.

✔ **Cut up your credit cards.** This makes it nearly impossible to take on any more credit card debt.

✔ **Pay down high-interest debt first.** Keep making the minimum payments on all your debts, but find a way to make the biggest payment possible on your highest-interest card or loan first.

✔ **Negotiate with your lenders**. Call them to request a reduction in your interest rate, a waiver of late fees, or an affordable payment plan.

If your financial plan needs to be updated to reflect current debt or create new future goals or if you're unsure whether to take on additional debts or loans, it's time for a review. We're here as a financial resource for you. ❍❍❍

Risk Tolerance and Your Retirement Portfolio

Risk is always going to be a factor in the stock market. As we age, however, risk becomes an even more important factor that no responsible investor can afford to overlook.

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major market upswings and downswings. This refers not just to highly volatile stocks, but to stocks themselves, which tend to be riskier than most other forms of investment.

If a person is measured to have a high risk tolerance, they typically are looking for potential growth in their portfolio and do not often worry about ups and downs based on market volatility. If a person is measured to have a low risk tolerance, most often their primary goal for their investments is to preserve their existing principal. Potential growth isn't a major objective for them because loss of principal due to market volatility is too unsettling.

The important thing to recognize here is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover. Some families have members with different risk tolerances, so making adjustments to lifestyle and finances need to take that into consideration.

That being said, often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your port-folio to be comprised of mostly stocks. Many aging investors find it prudent to move away from stocks toward low-risk mutual funds, bonds, or fixed-indexed annuities as an effective later-in-life strategy.

When reviewing your stock portfolio, take some time to list the stocks you feel strongly about keeping, and discuss the reasons why with a CERTIFIED FINANCIAL PLANNER™ professional. Your desire to keep the stock may not be aligned with your risk tolerance, performance needs, or long-term income needs. These discussions should vary for every investor because everyone has unique needs that make up their financial plan.

Are you ready to have your risk tolerance measured? Doing so is a prudent measure in designing your long-term financial plan. Updating it every few years is important as you age and your needs change. Working with a CFP® professional who can design a well-balanced financial portfolio based on insurance and investments is the ideal way for your long-term needs to be reflected in your plan. We're here to help. ❍❍❍

Make Your Savings Last through Retirement

What many people don't realize is just how hard it is to actually make one's money last *through* retirement without having proper planning in place. The fact is, retirement is tricky no matter how well-off you think you are going into it, and making your money last is something that can only be achieved with careful calculation.

Ready to learn how to make the most of your retirement without running short of money halfway through? Here are a handful of tips that you simply can't afford to ignore.

1. Consider Longevity Insurance

While the concept of longevity insurance is not new, options available have certainly evolved over the last 10 years. Essentially, many of today's insurance companies have tweaked the ways in which single premium annuities are paid out, allowing comfort to baby boomers who are concerned about getting their money when they need it most. Other options are available for income later in life, such as deferred income annuities and fixed indexed annuities with income riders. An important part of helping to retain your monies is by transferring risk off of you. Long-term care insurance and cash-value life insurance have evolved significantly in their ability to help mitigate long-term care costs.

2. Make Your Home Age-Proof

One thing that often gets overlooked by those who are preparing for retirement is the importance of age-proofing one's home. Over time, wear and tear can wreak havoc on even the most well-built homes, and repairs can end up being extremely costly. What's the solution? Make your home age-proof before entering retirement. An age-proof home is one that is not only able to withstand the elements and the test of time, but also one that will be easy for you and a partner to live in when you reach old age. Most age-proof homes don't feature staircases, for example, as mobility issues may arise later in life.

3. Choose the Right Withdrawal Rate

The withdrawal rate you choose for your retirement plan will have a major impact on how comfortably you're able to retire. Many people make the mistake of choosing a withdrawal rate that is simply too high, such as 10% in their first year of retirement. While it's certainly tempting to take out a fair amount of money and treat yourself once retirement age has been met, most people can agree that it's not a particularly smart idea.

In the end, the withdrawal rate that is right for you will depend largely on the strength and diversification of your portfolio. A smart starting point for the first year of retirement for most people is 4%, keeping the same rate plus adjusting for inflation in later years.

4. Keep a Solid Rainy-Day Fund

Most people believe the best way to ensure a comfortable retirement is to put as much money as possible into their retirement funds. However, it's essential to keep a solid rainy-day fund in case of an emergency. This fund will exist *outside* of your retirement plan. How much should you keep? In general, most people will benefit from keeping a rainy-day fund available of at least six months' worth of living expenses. Though it doesn't seem like much, it may be exactly what you need should an emergency occur.

5. Get a Light Job

Reaching the age of retirement doesn't mean you need to stop working altogether. For many, the shock of no longer working can actually be rather hard to deal with. There's something about community, for example, that can be hard to find outside a normal work environment. For some, the solution can be found in getting a light job once settled into retirement, and doing so comes along with a number of benefits.

While most people don't want to work hard once they've retired, there are plenty of lighter jobs that can not only help to foster community, but also bring in an increased amount of income each month. This money can either be put toward a savings account to add extra insurance for retirement, or you can choose to use it as spending money. Either way, holding a casual job after retirement is a great way to stay active and remain happy and healthy.

Retirement income planning has many moving parts. Working with a qualified income-planning specialist such as a CERTIFIED FINANCIAL PLANNER® professional provides you valuable resources. We're here to help. ❍❍❍

Chipotle Flank Steak with Lime, Black Beans and Kale

This meal is super quick and easy to make. The meat is the most tender if you season it overnight. The next day, this is a quick pull-together for a nutritious, robust meal.

1 lb. Flank Steak (grass-fed preferred)

1 T. Chopped Chipotle Chiles, in Adobo Sauce

(find this canned in International grocery aisle)

¼ tsp. Sea Salt

1 Tbs. Olive Oil

4 Garlic Cloves, minced

Olive Oil Cooking Spray

1 C. Chicken Broth

1 15 oz. Can of Black Beans, drained & rinsed

1 tsp. mild Chili Powder

1 10 oz. Bunch of Kale, trimmed and chopped

½ c. Fresh Cilantro, chopped

1 Lime, zested and juiced

Salt the steak and rub them with the chipotle chiles. Seal the steak in a glass container and refrigerate for 1 hour, minimum (we recommend overnight).

Before grilling, set the steak out to get closer to room temperature. Once the meat is less chilled, thoroughly preheat your grill. Sear the steak on the hot grill, then continue to cook the steak about 6–10 minutes on each side on medium flame. 15–18 total cooking minutes should result in a medium temperature; 20 minutes should be closer to medium well. Rest the steak for a minimum of 5 minutes before cutting into it.

Grab a large saucepan and fill it with the broth, black beans and chili powder. Cook over low to medium heat and simmer for 4–5 minutes, stirring occasionally. Add the kale, cover, and stir often until the kale is wilted and tender. Plate this and generously top with fresh cilantro, lime zest, and lime juice. Serve immediately with steak.

Investment Answers News

It's wonderful to reconnect with you as the end of spring quickly approaches. Can you believe how fast the time flies?

There are many exciting things happening at Investment Answers, and it would take more than a few paragraphs to tell you all about it! So, keep an eye out for our Event Calendars, which will highlight many of the events we will be hosting this summer. We look forward to some fellowship time with you!

Recently, our YouTube Channel "The Investment Answers" eclipsed 100,000 views. It's great to know that people are using our resources to learn more about financial concepts and answers to common questions! If you receive our *Weekly Market Update* e-mail, we include at least one video every week. If you'd like to sign up for it, use the "Newsletter Sign Up" link on our website.

In the regulatory world, new federal legislation is now in force concerning financial planners acting as fiduciaries when representing a client or potential client. Despite the many requirements stated by these rulings, our practice will continue on, business as usual. We are proud to be long-standing fiduciaries, and we wouldn't want to serve our clients or our many communities in any other way. If you have more questions concerning what a fiduciary is, call us! Additionally, you can read our Frequently Asked Questions (FAQs) section on our website:

www.InvestmentAnswers.net

Financial Thoughts

The average monthly restaurant tab per household is $223 (Source: National Restaurant Association, 2016).

While 82% of men participate in their employer's 401(k) plan, just 76% of women participate (Source: *AAII Journal*, April 2016).

Approximately 48% of workers report that they have tried to calculate how much money they will need for retirement. Almost 39% of workers simply guess at how much will be needed for retirement, rather than doing a systematic retirement-needs calculation (Source: *2016 Retirement Confidence Survey*).

The percentage of workers who expect to retire after age 65 has increased from 11% in 1997 to 37% in 2016. However, only 15% of retirees said they actually retired after age 65. Many retirees report that they left the workforce for reasons beyond their control, including health problems or changes at their companies (Source: *2016 Retirement Confidence Survey*). ❍❍❍