Monthly Newsletter

January 2023

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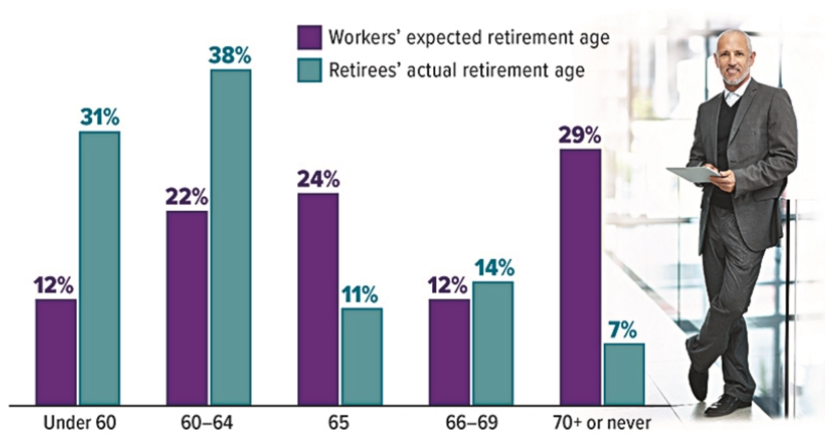
47%

Percentage of retirees who retired earlier than planned, with nearly one-third citing an unexpected hardship, such as a health problem or disability

Source: Employee Benefit Research Institute, 2022

Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, 65% of workers said they expect to retire at age 65 or older (or never retire), whereas 69% of retirees left the workforce before reaching age 65. When choosing a retirement age, it might be wise to consider a contingency plan.



Source: Employee Benefit Research Institute, 2022

Balancing Stocks and Bonds in One 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 higher 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. These 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 the 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 if the fund is not held in a tax-deferred account.

Core Holding

Unlike "funds of funds," which hold a variety of broad-based funds and are often meant to be an investor's only holding, balanced funds typically include individual stocks and bonds. They are generally not intended to be the only investment in a portfolio, because they might not be sufficiently diversified. Instead, a balanced fund could be a core holding that enables you to pursue diversification and other goals through a wider range of investments.

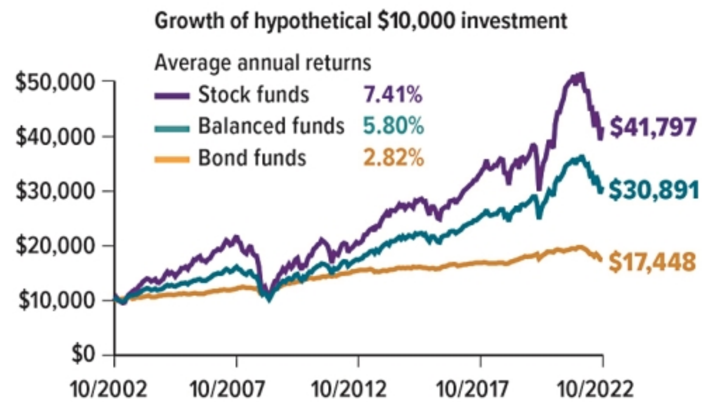
You may want to invest in other asset classes, hold a wider variety of individual securities, and/or add funds that focus on different types of stocks or bonds than those in the balanced fund. And you might want to pursue an asset allocation strategy that differs from the allocation in the fund. For example, holding 60% stocks and 40% bonds in a portfolio might be too conservative for a younger investor and too aggressive for a retired investor, but a balanced fund with that allocation could play an important role in the portfolio of either investor.

Heavier on Stocks or Bonds?

Balanced funds typically hold a larger percentage of stocks than bonds, but some take a more conservative approach and hold a larger percentage of bonds. Depending on your situation and risk tolerance, you might consider holding more than one balanced fund, one tilted toward stocks and the other tilted toward bonds. This could be helpful in tweaking your overall asset allocation. For example, you may invest more heavily in a stock-focused balanced fund while you are working and shift more assets to a bond-focused fund as you approach retirement.

Lower Highs, Higher Lows

During the 20-year period ending in October 2022, balanced funds were less volatile than stock funds, while producing higher returns than bond funds.



Source: Refinitiv, 2022, for the period 10/31/2002 to 10/31/2022. 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. Investments seeking to achieve higher yields also involve a higher degree of risk.

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.

Debt Optimization Strategies

To help improve your financial situation, you might consider reducing your debt. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including interest rates, payment requirements, and any prepayment or other penalties.

Start with Understanding Minimum Payments

You are generally required to make minimum payments on your debt, based on factors set by the lender. Failure to make the minimum payments can result in penalties, higher interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you will have to pay more interest over the life of the loan. This is especially true of credit-card debt.

Your credit-card statement will indicate your current monthly minimum payment. To find the factors used in calculating the minimum payment amount each month, you can review terms in your credit-card contract, which can change over time.

The minimum payment for credit cards is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or a base minimum amount (such as $15). For example, assume you have a credit card with a current balance of $2,000, an interest rate of 18%, a minimum percentage of 2% plus interest, and a base minimum amount of $15. The initial minimum payment required would be $70 [greater of ($2,000 x 2%) + ($2,000 x (18% ÷ 12)) or $15]. If you made only the minimum payments (as recalculated each month), it would take 114 months (almost 10 years) to pay off the debt, and you would pay total interest of $1,314. For consumer loans, the minimum payment is generally the same as the regular monthly payment.

Make Additional Payments

Making payments in addition to your regular or minimum payments can reduce the time it takes to pay off your debt and the total interest paid. Additional payments could be made periodically, such as monthly, quarterly, or annually.

Using the previous example ($70 initial minimum payment), if you made monthly payments of $100 on the credit card debt, it would take only 24 months to pay off the debt, and total interest would be just $396.

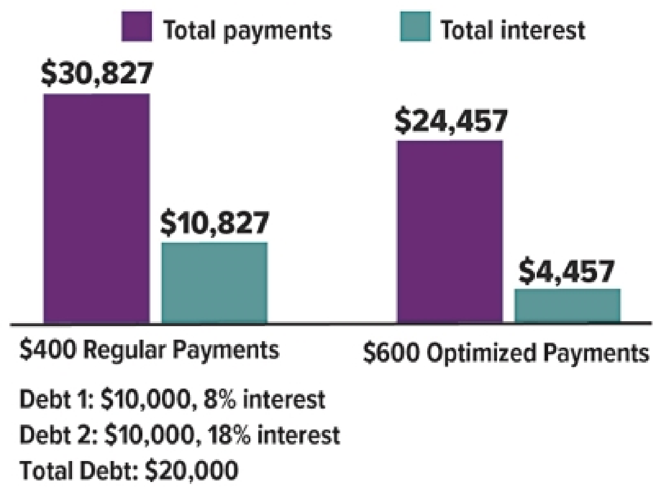
Here's another example. Assume you have a current mortgage balance of $300,000. The interest rate is 5%, the monthly payment is $2,372, and the remaining term is 15 years. If you make regular payments, you will pay total interest of $127,029. However, if you pay an additional $400 each month, it will take only 12 years and one month to pay off the mortgage, and you will pay total interest of just $99,675.

Pay Off Highest Interest-Rate Debt First

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt and then allocate any remaining dollars to debt with the highest interest rates.

For example, assume you have two debts, you owe $10,000 on each, and each has a monthly payment of $200. The interest rate for one debt is 8%; the interest rate for the other is 18%. If you make regular payments of $400, it will take 94 months until both debts are paid off, and you will pay total interest of $10,827. However, if you make monthly payments of $600, with the extra $200 paying off the debt with an 18% interest rate first, it will take only 41 months to pay off the debts, and total interest will be just $4,457.

Pay Off Highest Interest-Rate Debt First



Use a Debt-Consolidation Loan

If you have multiple debts with high interest rates, it may be possible to pay them off with a debt-consolidation loan. Typically, this will be a home-equity loan with a lower interest rate than the rates on the debts being consolidated. (Note that a federal income tax deduction is not currently allowed for interest on home-equity indebtedness unless it is used to substantially improve your home.) Keep in mind that a home equity-loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.

All examples are hypothetical and used for illustrative purposes only and do not represent any specific investments or products. Fixed interest rates and payment terms are shown, but actual interest rates and payment terms may change over time. Actual results will vary.

The Inflation Experience Is Painful and Personal

Inflation is a sustained increase in prices that reduces the purchasing power of your money over time. According to the Consumer Price Index (CPI), inflation peaked at an annual rate of 9.1% in June 2022, the fastest pace since 1981, before ticking down to 7.7% in October.[1]

The CPI tracks changes in the cost of a market basket of goods and services purchased by consumers. Items are sorted into more than 200 categories and weighted according to their "relative importance," a ratio that represents how consumers divide up their spending, on average. Basic needs such as shelter (33%), food (14%), energy (8%), transportation (8%), and medical care (7%) account for about two-thirds of consumer expenditures. Because the CPI is a comprehensive measure of prices across the U.S. economy, the index also contains many items that an individual consumer may purchase infrequently, or not at all.

Wide variations in spending patterns help explain why some consumers feel the sting of inflation more than others. This means that the extent to which you experience inflation depends a lot on where you live, as well as your age, health, income, family size, and lifestyle. In effect, your personal inflation rate could be significantly higher or lower than the average headline inflation rate captured in the CPI. Consider the following examples.

- In October 2022, the 12-month increase in the cost of shelter was 6.9%.[2] Shelter carries the most weight of any category in the CPI, which made fast-rising home prices and rents a top driver of inflation over the previous year. A first-time homebuyer, or a renter who signs a new lease, is likely to feel the full impact of these hefty price increases. However, a homeowner with a fixed-rate mortgage is generally insulated from these rising costs and might even benefit financially from home-equity gains.
- Gasoline surged 17.5% during the 12 months ended in October 2022.[3] Individuals who rarely drive, possibly because they are retired or work remotely, might have been able to shrug off the price spike. But for drivers with long commutes, filling up the gas tank regularly might have put a sizable dent in their households' finances, in some cases forcing them to cut back on other purchases.
- Food and beverage prices rose 10.9% over the same 12-month period, a trend that clearly affects everyone.[4] But rising food costs tend to put more pressure on the budgets of lower-income households because they spend a greater share of their income on necessities and typically have smaller financial cushions. Plus, shoppers can't easily switch to lower-cost options if they are already relying on them.[5]

1-4) U.S. Bureau of Labor Statistics, 2022

5) Federal Reserve, 2022