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Financial Briefs

JANUARY 2024

Calculating Your Financial Ratios

When reviewing the financial health of a company, it's common to look at financial ratios, such as earnings per share, price/earnings ratios, book value, and total return. The reason financial ratios are so popular is they give you a means to evaluate financial information, while allowing you to track changes in a company's performance over time.

Consider using the same concept to assess and track your personal financial situation. At least annually, prepare a net worth statement and then calculate various financial ratios. Comparing those ratios over time will help you assess whether you are making progress toward your financial goals.

You should start by preparing a net worth statement, which lists all your assets and liabilities, with the excess representing your net worth. All assets should be listed, including vested balances in retirement plans and 401(k) plans, personal property, jewelry, and household items. Assets should be valued at the price you would obtain if you sold them now, not the amount you paid for them. You'll also want to list your annual income, for ease in calculating some of the ratios.

Now, ask yourself the following questions about your finances:

- **Has your net worth grown by more than the inflation rate?** Calculate the percentage growth in your net worth over the past year and compare it to the inflation rate. To make progress toward achieving your financial goals, your net worth should increase by more than the inflation rate. With recent fluctuations in the stock and housing markets, you may see short-term declines, but make sure you are making progress over the long term.
- **What is your ratio of assets to liabilities?** A ratio of less than 1 indicates you have more liabilities than assets — a negative net worth. If that is the case, take active steps to reduce your liabilities. This ratio should increase over time, which indicates you are reducing debts.
- **What is the trend in your liabilities?** Review the amounts and types of debt outstanding. Mortgages are typically used to

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4 Steps to Increase Financial Confidence

When it comes to being in control of your money, confidence is one of the most important attributes you can have. Below are four simple suggestions that can help you increase your financial confidence, so you'll know you're making smart decisions for yourself, your family, and your future.

1. Get organized. Not too long ago, it didn't take much work for the average person to organize their finances. Unless you were very wealthy, money matters were fairly straightforward — you might have had checking and savings accounts, an insurance policy, maybe some stock investments and bonds, and a mortgage. If you were lucky, you had a pension. You could easily store all your financial information in a single accordion file.

Today, things are more complicated. Credit cards, home equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of things to keep track of seems endless. It's easy for things to get lost or overlooked. That in turn can lead to mistakes that can weaken your financial confidence. Getting organized will give back a feeling of control.

There are numerous strategies for getting organized. The best approach for you depends on your specific situation and your personality.

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Your Financial Ratios

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purchase a house or other items that appreciate in value, so are considered good debt. Credit card balances and auto loans are used to finance items that typically don't appreciate in value and should be kept to a minimum.

- **What percentages of your assets are liquid and nonliquid?** Nonliquid assets include items like your home, other real estate, jewelry, and works of art. Although they may increase in value over time, they can be difficult to sell quickly at full market value. Liquid assets, such as bank accounts and stocks, are more easily converted to cash. You want sufficient liquid assets to cover financial emergencies.
- **What is your savings to income ratio?** For this ratio, your savings equal all assets designated to help fund your retirement. It typically won't include your home, since you will probably live there after retirement. First, you need to decide what this ratio should equal at retirement. It is basically the amount of savings you want at retirement age, preferably determined after a careful analysis of all appropriate factors, divided by your annual income. For instance, if you want retirement assets equal to $2,000,000 when you retire and you currently earn $100,000, you would need a savings to income ratio of 20 when you retire. You might then develop benchmarks over your working years to help you gauge whether you are on track to achieving that goal.
- **What is your savings rate?** Calculate what percentage of your income you are saving on an annual basis. Typically, you'll want to save a minimum of 10% a year. This would include 401(k) contributions and individual retirement account contributions. If your employer matches your 401(k) contributions, you can include those contributions as part of your annual savings.
- **How have your investments performed?** Now may also be a good time to thoroughly analyze your portfolio's performance over the past year. Measure the performance of each investment, comparing it to an appropriate benchmark. This can help you identify portions of your portfolio that may need to be changed. Also calculate your overall rate of return and compare it to your targeted return. If your actual return is lower than the return you targeted when designing your investment program, you may need to increase your savings, select investments with higher return potential, or settle for less money in the future.

Please call if you'd like help reviewing your personal financial ratios or assessing whether you are on track in pursuing your financial goals.

Dreams and Goals: What's the Difference?

It takes a lot of hard work to fulfill your dreams. But we're not just talking about the years of employment you have to put in to afford your dreams. Instead, we mean converting your dream into a plan to make it come true.

The first step is to recognize the difference between a dream and a goal. A dream is a vision that inspires you to work hard, smart, or both. It's what gets you up in the morning and keeps you on the job no matter how tough or trying it may be. As pleasant as the dream may be, however, it lacks specificity. Specifics are for goals and plans of action.

A financial goal and plan of action to meet it sounds like this: I'm going to retire when I'm 65 years old, in a lifestyle that costs $150,000 a year in today's dollars, and maintain it, adjusted for inflation, for as long as I live. Of that amount, $120,000 is going to come from my personal savings, which means I need to save a total of $1.7 million. And that means I have to save $40,000 a year and my savings has to earn 8% a year.

To summarize: a financial goal consists of a date (1) by which time you need a specific amount of money (2) that lasts a specific amount of time (3). The action plan calls for: 1) setting aside a specific amount of money, 2) investing it to achieve a specific rate of return, and 3) monitoring your progress and making the necessary course corrections to remain on target.

If you're in business, you understand this implicitly: to reach a goal, you have to define it, create a business plan of action, execute that plan, and periodically review your progress. The personal corollary to a business plan is a financial plan.

What good goal making comes down to is making fairly reliable projections of what your financial goals are going to cost in the future and when that future will arrive. The more expertise that's applied to goal formulation, the better the goals will be. After that, the creation of a plan to meet those goals takes even more judgment calls: what is the rate of inflation likely to be between now and when your goal needs to be met; what kind of funding will the plan require; what asset allocation strategy is going to achieve the best balance between the rate of you return you need and the level of risk you're comfortable taking.

The key to achieving your goals is adjusting to the unexpected — those changes in your life and the returns that the financial markets actually experience. If the changes are significant enough, it may take you back to square one — restructuring your goals. Good financial planning isn't a one-time exercise. At its best, it's an iterative exercise that calls for steadiness of vision, calm reactions to new realities, market awareness, and flexibility. Please call if you'd like to discuss this in more detail.

4 Steps to Increase

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Some people stick with that old-fashioned accordion file. Others go completely digital, taking advantage of apps and online document storage to keep everything straight. Whatever solution you choose, it's important to know all the details of your finances.

2. Get educated. When you start a new job, you may feel nervous. There's a lot to learn, and you may not be confident that you'll succeed in your new position. But if you commit yourself to learning new skills and the ins-and-outs of how your new organization functions, your confidence will gradually increase. The same holds true for your finances. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life.

Basic financial literary isn't really covered in most school curricula, so many otherwise savvy adults are clueless in this area. Fortunately, increasing your financial literacy is not hard; it just requires a little bit of effort. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online. If you don't want to go back to school, consider watching videos or reading articles that review financial concepts that you're unfamiliar with.

3. Get a financial plan. Making financial decisions on a day-to-day basis with no larger purpose or focus in mind may work for some people, but it's not likely to help you become financially confident. If you don't have any idea what might (or what you want to) happen, you're not likely to be very confident about your future. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will do wonders for your financial self-esteem. Having a financial plan will also help you prepare to cope with an uncertain world. You'll be better prepared for the unexpected. In fact, people who engage in financial planning are more likely to report that they live comfortably and are on track to meet all of their financial goals.

Why is a financial plan so important? It brings together all the threads of your financial life. Having a solid financial plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence.

4. Get help. Getting reliable advice from an outside expert can greatly improve your financial confidence. Just like a doctor supports and guides you in making decisions about your health, and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. If you're unsure about what to do next, please call.

Give Yourself a Money Makeover

A new haircut or wardrobe overhaul can work wonders in terms of giving someone a fresh outlook on life and a self-esteem boost. The same can be said for a money makeover.

Step 1: Identify your flaws. Any makeover begins with identifying what you want to change. Sit down, make an honest assessment of your current financial state, and then list a few aspects that you wish were different.

Be honest at this stage. You need to face up to things you want to change. At the same time, if your list is a mile long, don't beat yourself up over it.

Step 2: Decide what you want to change. If you're like most people, your list of potential financial fixes is a bit overwhelming. Since you won't be able to tackle everything at once, you need to prioritize.

Look at your list and highlight a few items that you think would make the biggest difference in your life and that you can actually do something about. Say you want to buy a house so you can stop renting, but reckless spending has left you with poor credit. Rather than focusing on changing your living situation, you might be better off by focusing on improving your credit score, so that one day you can buy that dream house.

Step 3: Take action. The next step is to actually implement your makeover. Take the steps you need to make the necessary changes in your life. It may be helpful for you to come up with a calendar or list of specific action steps to keep you from getting discouraged.

For example, if you're looking to improve your credit score, you might make a list of specific things you need to do to make that happen, with deadlines for each one. If it's your spending that's the problem, you might start by simply tracking how and when you spend for a week or two. Once you know where you money is going, you can make an effort to stop or reduce some spending and dedicate the money you save to other goals.

Step 4: Get help if needed. You don't necessarily need fancy tools to give yourself a financial makeover. But it often helps when someone has your back. If you're worried about your ability to turn your makeover dreams into reality, you may want to seek the help of an expert on issues related to taxes, retirement, college planning, debt repayment, and more. Not only can they provide valuable and objective advice, but they'll also be a coach who can help you stay on track.

As you take steps to change your financial life, be sure to stop and celebrate your successes. Give yourself a pat on the back — and perhaps a small reward — when you achieve a goal.

News and Announcements

From The Thurman Household

Levi did well at the World Championship in Jiu-Jitsu. He got a bye in the first round, won the second round, and in the third round, was pitted against the Pan Am gold medalist. In the match, Levi had him in a great submission hold, but the guy somehow got out of it. Levi then made a small mistake and it was all over. Single elimination. Proud of his work ethic and how far he's come. He's also adopted a new kitty, that's 3 pets for him now.

Pati is busy putting together a trail run, The Rose Rock Trail Run. She's planning for 500 participants and she'll have 5,10,15 and 20k runs. Praying for better weather. Last year was kind of a mud walk. The run is a fundraiser, primarily for the YMCA.

I've been playing in pickleball tournaments and doing OK. I'm 64 and the age brackets are 60-64. I'm looking forward to my birthday when I can be the "young guy" in the bracket. Hoping to get my rating up next year and play with the big boys.

Life is good.

Randy L. Thurman, CFP®
CPA/PFS™, CEO

From the Flinton Household

Behavioral psychologists have been able to show how the decision-making judgement and ability of humans drops significantly over the course of a day. In addition to this, they have also been able to clearly show how the lack of sleep affects some of the same judgement making faculties in the brain. And to add a cherry on top of this decision-making sundae, I tend to be an emotional eater. Last month, I was having an unusually difficult time sleeping one particular week. On Wednesday night, after three prior nights of extremely limited sleep, I found myself once again running laps in my head around midnight. This was about to be the fourth consecutive sleepless night, and my decision-making abilities got the best of me. To add one more layer of poor judgement, I found myself completely frustrated. I decided to give in, and I stormed to the kitchen, and ripped open a brand-new sleeve of Oreo cookies, as my 11-year-old daughter, Emerson, walked in the kitchen. She looked at me and questioned, "can't sleep? Me either." She then proceeded to grab an Oreo, and we sat there in silence and ate the entire sleeve of cookies. Turned out my lack of judgement caused me to have a momentary break, and I'll have a wonderful lifelong memory because of it.

Andrew K. Flinton, CFP®
President

From the Peralta Household

As the new year begins, my wife and I are gearing up for the exciting adventure of moving into our first home. Weekends are now filled with comparing home appliances for cost and efficiency, exploring home insurance options, and diving into the detailed HOA guidelines. Amidst the fun, we eagerly anticipate this new chapter in our lives.

Even though the Peralta family currently consists of the two of us and our energetic dogs. Quinn, my wife, often points out the nearby elementary school, but that's a topic we'll explore in the chapters to come.

Alexx V. Peralta, CFP®
Financial Advisor Associate

Retirement Investment Advisors, Inc.
Holiday Hours

Martin Luther King, Jr. Day
Monday, January 15, 2024 – Closed

President's Day
Monday, February 19, 2024 – Closed