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401(k) UPDATE

4TH QUARTER 2017

Saving and Life Planning

We are all unique, so there's no one financial plan that will suit everyone. But that doesn't mean there aren't some broad guidelines to fit common situations. So when it comes to your savings, here are some benchmarks to indicate whether you're following the right priorities and are on track for meeting your financial goals:

In your twenties. Typically, this is the age when you're likely to have the lowest income in your working life, but also the fewest dependent-related expenses. At this stage, you should have two top priorities: First, you should concentrate on building an emergency fund equal to three to six months of living expenses held in short-term savings vehicles.

Second, you should begin putting money into an individual retirement account (IRA) or 401(k) retirement plan. The advantage of beginning to save for retirement at this age is time: in a tax-deferred account, even relatively small amounts can grow into significant assets when you have 35 to 40 years to harness the power of compounding. For example, if you contribute just $2,000 a year to an IRA and it grows by 8% a year, after 30 years, it could be nearly $227,000 and more than $518,000 after 40 years. *This example is provided for illustrative purposes only and is not meant to project the performance of an actual investment.*

You may have a third priority: saving for a down payment on a house. It's best if you can accumulate 20% of the price of the house to avoid having to pay private mortgage insurance, but whatever you can accumulate will help keep your mortgage payments lower.

In your thirties and forties. If you have children, it's a good idea to be saving for their educations. Consider a tax-advantaged 529 college savings plan that you can invest in the stock market. The

Continued on page 2

Dealing with Stock Losses

Typically, investors find it easier to sell a stock with a gain than to sell one with a loss. When selling a stock with a loss, we must admit we made a mistake, which is psychologically difficult to do. Thus, investors have a tendency to hold on to a losing stock, hoping it will eventually get back to at least a breakeven point.

However, this might not be the best strategy for your investment portfolio. While you are waiting for the stock to get back to breakeven, your money could be in other investments that might earn a higher rate of return.

When evaluating your investments, objectively review the future prospects of each stock, making decisions to hold or sell on that basis rather than on whether the stock has a gain or loss. You can't change your past investment decisions, but you can come to grips with them so you can move forward and make appropriate investment decisions for the future. ❍❍❍

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Life Planning

Continued from page 1

principle here is that if you have more than five years before college bills start coming due, you can afford to take some risk to potentially achieve a higher rate of return than you might from bonds or other safer investments.

Now you should begin to increase your contributions to your retirement accounts. The more you can put aside now the better, as you still have 25 to 30 years of compounding. Your emphasis should still be on the stock market; although by your late forties, you might consider increasing your bond investments to guard against losses due to market shocks.

In your fifties. This is normally the time when people make their largest contributions to their retirement accounts because their incomes are close to the highest of their careers; and if they have any children, they're typically out of college and on their own.

Federal limits on annual contributions to retirement plans are more generous at this age, too. For example, as of 2017, below age 50 there's a ceiling of $5,500 for contributions to IRAs and $18,000 to 401(k) plans, but at age 50, those limits increase to $6,500 and $24,000, respectively.

It takes in-depth calculations to determine how much your retirement portfolio should be and whether you're on track to meet the accumulated value of the nest egg you'll need to retire. That said, it's not unusual for people who are in their fifties to have accumulated only about half of what they'll need by age 65, yet still be on track for a well-funded retirement. (If your account balances are considerably less than half of what you'll need, you might have some catching up to do, or it might be necessary to consider retiring at an older age.)

In your sixties. This is the home stretch of the period during which you acquire assets for retirement. As you enter this decade of your life, you should still be contributing more than you ever have to your retirement accounts.

With less than five years before you retire, you should consider reshaping your portfolio to include greater percentages of lower-risk investments. ❍❍❍

Tactical Asset Allocation and Market Timing

Your investment strategy should include a long-term plan for dividing your portfolio among the major asset classes: stocks, bonds, and cash. The term for this is strategic asset allocation, and it entails an annual review to bring your portfolio into alignment with your strategy. Over time, some asset classes perform better or worse than others, causing your actual holdings in each class to be larger and smaller than your strategy calls for.

You can resolve this discrepancy by selling off some assets that grew to be more than the plan calls for and use the proceeds to buy assets that are a smaller portion. In this way, you maintain the risk level that's needed to meet your objectives.

But there's another way to go about managing your portfolio that takes a different approach. It's called *tactical* asset allocation, and it involves making changes in your portfolio to take advantage of emerging up trends in one asset class and avoiding the damage a new down trend in another asset class could cause. If you're successful, you can achieve higher returns than by sticking with your strategic allocation plan.

Notice, however, the word "if." It's extremely difficult even for professional money managers to succeed in tactical asset allocation, and the consequences of being off on your timing can be devastating.

As most financial advisors tell their clients, the best portfolio returns are often achieved not by timing the market, but by how much time your money is in the market. Even though market up trends can last for months, if not years, studies show that the biggest returns come in spurts of short periods of time. If you miss these spurts, you could be missing the bulk of the benefit of any upturn.

The table below illustrates the benefits of remaining in the stock market and the risks of being out of it, even for relatively short periods of time. It shows the returns from a portfolio entirely invested in the Standard & Poor's 500 Index for all 5,038 trading days from the first day of 1997 through the end of 2016, compared to the returns that investors would have had if they had been out of the market for its five, 10, 20, and 40 best days. The differences in return are striking.

Average Annual Total Return: 1997–2016

Invested…	
All 5,038 days	7.68%
Minus five best days	5.49%
Minus 10 best days	4.00%
Minus 20 best days	1.57%
Minus 40 best days	-2.42%

Source: Index Fund Advisors, 2017

What's the main message here? Your best strategy is to invest your money in a diversified portfolio, reallocating periodically to maintain your strategic balance. ❍❍❍

Overcome 5 Retirement Fears

We've all heard stories about people losing all of their retirement money, outliving their money, or incurring unexpected medical expenses that force 80-year-olds back into the labor pool. Are these fears likely to become realities? Probably not, but here's how you can deal with them.

1. Outliving your money — There's a rule of thumb to decrease the odds of outliving your money over a 25-year retirement: by the time you're ready to retire, you should have saved eight times your annual salary. To get there, gradually work up to it. Of course, the amount of money you'll need to have saved by the time you're ready to retire depends on a huge range of very individual factors: What are your plans for retirement? How old are you? Will you still have a mortgage? Do you have long-term-care insurance?

2. High inflation — What if inflation went up to 12–14% as it did in the 1970s? It's probably not likely inflation would spike like that again. However, because it has happened before, you'll want to be prepared. This is where an annual review of your investments can be wise. That is the point of diversification: if you are properly diversified, your portfolio should include investments that move opposite of each other — so when one asset class or subclass is down, another is up.

3. Unexpected medical expenses before retirement — Unexpected medical expenses you may incur while you are still working could totally derail your retirement. To prepare for them, it's important to have insurance in place, such as disability and life insurance. Disability insurance will ensure that if you do lose your income due to a disability, you will still be able to take care of your basic necessities. Life insurance will protect your family in the event of your death — especially important if your income was the key to your spouse's retirement.

4. Unexpected medical expenses during retirement — For most people, health care is one of the largest (often *the* largest) expense incurred during retirement. There are a few ways to prepare for medical emergencies: private health insurance to fill the gaps in Medicare, long-term-care insurance, and rainy day savings. For today's retirees, Medicare takes care of most medical expenses, however, you need savings to cover what insurance won't — like copays and expenses exceeding your insurance limit. And just as you save before retirement for unexpected expenses, so should you continue your rainy day fund in retirement. Even if you are adequately insured, copays can be significant if you have a medical emergency.

5. Market crash — As with high inflation, the key to surviving a market crash is diversification. There is no way to insulate yourself completely from the effects of economic turmoil. But you can take steps to ensure that turmoil doesn't completely ruin your retirement plans. As you get closer to retirement, you should be invested less heavily in equities and more in investments such as bonds. ❍❍❍

How to Save without Pain

Let's face it, many of us think saving is just plain old painful. And it can be if you completely deny yourself, but there are many ways to save without feeling deprived. Following are some suggestions:

Direct deposit or automated savings — Set up a direct deposit from your paycheck to go directly to your savings or use online banking to set up an automatic transfer from your checking to your savings account on a regular basis.

Check your cell phone plan — Compare your plan with other providers to see if you can get a similar plan for less money. Or downsize your data plan.

Rethink cable — Check with your cable company to see if they offer smaller packages that can save you money.

Refinance debt — Refinancing your mortgage can significantly reduce your monthly expenses. Also check into refinancing your car, student loans, and credit card debt with zero-percent balance transfer cards.

Raise your insurance deductible — If you increase your deductible, you can save a lot on your premiums.

Other ideas — Here are a few other easy ways to save: Get rid of your landline, pack your lunch instead of dining out, become your own barista by making your own coffee, look for coupons for things on your list, buy store brands (which are considerably cheaper), and take the time to comparison shop before making large purchases. ❍❍❍

Why Budgets Are Important

For most of us, a budget is arduous and time-consuming, but it is the first step in securing your financial future. Planning is critical, and you have to know how you are currently spending your money. The merits of a budget include:

The foundation for establishing and reaching financial goals — You have to understand your overall financial situation to be able to set financial goals. The first step is to understand your income and expenses. Once you know where your money is going and if you have a surplus or deficit, you can establish goals, such as paying off debt or saving for something you want.

Helping you spend based on your priorities — Now that you understand your complete financial picture and have established goals, you can begin to control your money instead of it controlling you. It will help you decide if you need or want to make sacrifices to meet specific goals. It will also help you determine how much debt you can afford if, for example, you are interested in buying a house.

Building wealth and saving for retirement — You can also begin to focus on the long term as part of your budget. Identify how much you can put toward savings and investments so you can reach some of the goals you defined. You will be able to clearly see what spending you may need to reduce or cut in order to save. And retirement warrants special attention, so put away as much as possible. Even $100 a month can increase your savings by tens of thousands of dollars by the time you retire.

Reducing stress — This is so important. Feeling confident about your finances will significantly reduce stress and help you enjoy the benefits of your hard work. ❍❍❍

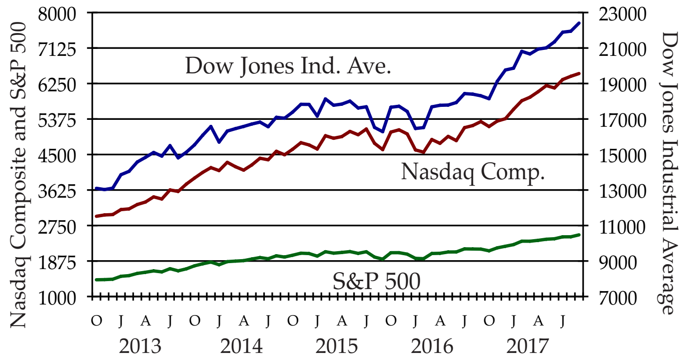
Market Data

	Month End			% Change	
	Sep 17	Aug 17	Jul 17	YTD	12-Mon.
Dow Jones Ind.	22405.09	21948.10	21891.12	13.4%	22.4%
S&P 500	2519.36	2471.65	2470.30	12.5	16.2
Nasdaq Comp.	6495.96	6428.66	6348.12	20.7	22.3
Wilshire 5000	26148.54	25560.21	25572.15	12.3	16.4
Gold	1283.10	1311.75	1267.55	10.7	-3.0
				Dec 16	Sep 16
Prime rate	4.25	4.25	4.25	3.75	3.50
Money market rate	0.27	0.26	0.29	0.29	0.28
3-month T-bill rate	1.05	1.02	1.11	0.56	0.25
20-yr. T-bond rate	2.57	2.57	2.61	2.86	2.06
Dow Jones Corp.	2.97	2.95	2.96	3.17	2.57
Bond Buyer Muni	4.04	4.00	4.03	4.26	3.81

Sources: *Barron's, Wall Street Journal*

Stock Indices

October 2012 to September 2017



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Women face five challenges when ensuring that they have enough income for retirement.

1. Fewer working years: Women average just 29 years in the workforce compared to 38 years for men. The difference is due to time taken off to care for children and, to a lesser extent, elderly parents.

2. Lower pay: Professional women earn 28% less than professional men.

3. Greater risk aversion: Women tend to maintain higher cash allocations and lower stock and mutual fund allocations than men do.

4. Longer lifespans: Women age 65 outlive men of a similar age by 2.5 years. In situations where the wife outlives her husband, women live an additional 11.5 years following the death of their spouses.

5. Higher healthcare costs: Women will spend $19,558 on healthcare once they turn 65, compared to $18,251 for men (Source: TIAA, October 2016).

Approximately 25% of parents have taken on debt to support adult children, and 60% of parents would keep working longer to support adult children (Source: *Money*, January/February 2017). ❍❍❍