Portfolio Management, LLC

Building Wealth Wisely

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Richard's Rules

Below are some core financial planning principles that we have found helpful over the years. If needed, these suggestions and formulas can be adjusted for each person's unique needs and circumstances.

Saving / Spending

- Contribute 15-20% of your salary and wages into a retirement and/or investment account every year.
    - If you start contributing early in life or if you have a guaranteed pension, 15% should be okay.
    - If you start contributing later in life, aim for 20% or higher.
    - Try to max out your retirement account contributions and automate your deposits.
- Live within your means, and keep an emergency fund equal to 6-12 months of expenses.
- Don't buy more house than you need; keep any home purchase price under 3 times your household income. Housing is an expense, not an investment.
- Avoid consumer and credit card debt – but borrowing for a mortgage can be beneficial. In general, don't pay interest on anything that will decline in value.
- Your net worth should at least equal your age times your income divided by 10.

Investing

- Maintain an adequate allocation to equities. Depending on goals and risk tolerance, your target equity allocation should approximate 115 – your age: e.g., at age 65, 115 – 65 = 50% in equities.

- Avoid emotions and market timing. There are only two types of market timers – those that have been wrong and those that are going to be wrong.

- Try not to look at your investment accounts more than twice a year. Checking your investments more often leads to short-term decision making and less favorable long-term results.

- Take advantage of rebalancing, the only free lunch in town.

- The Rule of 72 indicates the rate of return required for the doubling in value of your nest egg, and vice versa:

  - a 7.2% annual return will double the value of your portfolio in 10 years &
  - a 10% rate of return will double the value of your portfolio in 7.2 years.

<u>Retirement</u>

- Defer taking social security to a later age, if possible.

- Maintain a balanced portfolio throughout retirement (remember 115 – your age).

- By retirement, your home should represent no more than 30% of your net worth.

- It's probably okay to spend up to 4% of the value of your liquid assets during retirement (if your portfolio is properly diversified).

<u>Professional Advice</u>

- You may want to talk to a financial advisor. If so, make sure he or she is a fiduciary who operates on a fee-only basis. (Registered Investment Advisors and Certified Financial Planners™ have a fiduciary duty to provide advice that is in a client's best interest.)

- Make sure you visit with a lawyer to execute proper legal documents. This may include a Will, Durable Power of Attorney, Living Will, and/or Trust.