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401(k) UPDATE

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5 Steps to Creating an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your investment plan.

1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with the money I save and earn?" For example, you might invest to fund a child's college education, retire comfortably, buy a house, start a new business, leave a charitable bequest to a favorite cause, or pay for a wedding

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. Making these estimates can be challenging, but it's an essential investment planning step. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, you need to establish your time frame for investing. Typically, your goals will fall into one of three categories:

- **Short-term:** Short-term goals are those you expect to achieve in five years or less.
- **Medium-term:** Medium-term goals are those you expect to achieve in five to 10 years.
- **Long-term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing time frame has a direct relation to the investments you'll choose. Generally, the shorter

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Bonds and Interest Rate Changes

With interest rates at such low levels, you might be wondering what could happen to your bond portfolio if interest rates rise. Basically, interest rate changes affect bond prices as follows:

- **Interest rates and bond prices move in opposite directions.** The price of a bond will decrease in value when interest rates rise and increase in value when interest rates fall. The price of an existing bond changes to provide the same return as an equivalent, newly-issued bond. Since you'll receive the full principal value at maturity, holding a bond until maturity eliminates the impact of interest rate changes.
- **Interest rate changes have a more dramatic effect on bonds with longer maturities.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, their prices must change more to compensate for those interest rate changes.
- **Bond price changes are less significant for bonds with higher coupon rates.** Bonds with coupon interest rates near or above current interest rates will experience the least amount of price fluctuation. ❍❍❍

5 Steps

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your time horizon, the less risk you'll want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less-risky investments like bonds will likely make up a larger portion of your portfolio. But if you're investing for the long haul, you can invest in higher-risk investments, since you will have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and your time frame.

4. Decide How Much You Want to Invest

Now you can consider how much money you want to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

You need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, your investment goals, and your time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you expect to live, the impact of inflation, and the money you'll receive from other sources like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and time frame will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or perhaps a money market fund for short-term goals. If you're baffled by all the options, it's always a good idea to seek a second opinion. ❍❍❍

4 Steps to Boost Financial Confidence

Below are four simple suggestions that can help you increase your financial confidence so you'll know you're making smart decisions.

1. Get organized. Not too long ago, it didn't take much work for the average person to organize their finances. Money matters were fairly straightforward. 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. Getting organized will give back a feeling of control.

The best approach for you depends on your specific situation and your personality. Some people stick with that old-fashioned accordion file. Others go completely digital. Whatever solution you choose, you need to know all the details of your finances.

2. Get educated. Basic financial literacy 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.

3. Get a financial plan. 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.

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. A recent survey found that nearly 75% of American adults thought they could benefit from seeking professional financial advice. Yet relatively few people actively seek out financial assistance. That's a shame, because getting reliable advice from an outside expert can do wonders for 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. ❍❍❍

The Psychology of Saving

Saving money sounds simple, and in many ways, it is. You simply set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve the things you most want.

But in reality, saving is a little more complicated. Sometimes, our own minds seem to work against us when it comes to setting aside some of the money we earn. That's why a basic understanding of the psychology of saving can help you overcome roadblocks and get closer to your goals.

Why It's Hard to Save

What is one of the biggest obstacles most people face when it comes to saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. For example, one study found that most adults would prefer to have $50 today rather than $100 two years from now.

Part of the difficulty people face with saving for long-term goals is also that people may tend to think of their future selves as different or separate from their current selves.

That disconnect can make it hard to prioritize saving for the future.

Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self, rather than in terms of their basic self-interest, would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to save more.

In fact, there are number of studies that suggest changing our mentality — either about the future or about saving in general — might allow us to set aside more money.

A recent study found that people who adopted a cyclical mindset to saving focused on making saving a routine in the short term, saved more than people who set more ambitious longer-term goals. Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period.

Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.

The Psychological Advantage of Saving

Once you commit to savings, there's a good chance that you'll see a psychological boost from doing so.

A 2013 survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account. That same survey found that 82% of people reported

that saving made them feel independent.

Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness.

Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences that they considered meaningful.

While our mental quirks might sometimes make saving difficult, being aware of the obstacles our mind conjures can help us find our way around them.

And in turn, that may lead to greater savings and increased happiness overall. ❍❍❍

Investing in the Golden Years

There are so many unknowns: Will Social Security be there when you retire? How long will you live? Will the stock market decline right as you need to make retirement withdrawals? How aggressive should you be with your retirement allocation as you near retirement?

As is often the case, the answer is: it depends.

While we can't predict the future of Social Security or how long we'll live, we can take steps to allocate our investments so we have the right balance of stocks, bonds, and cash equivalents for our financial goals. Determining that mix as you near retirement involves both qualitative and quantitative factors. You'll need to consider:

- ✔ How much you've already accumulated for retirement
- ✔ How much you can save annually between now and when you retire
- ✔ How large a portfolio you're going to need, based on how much you want to withdraw annually during retirement

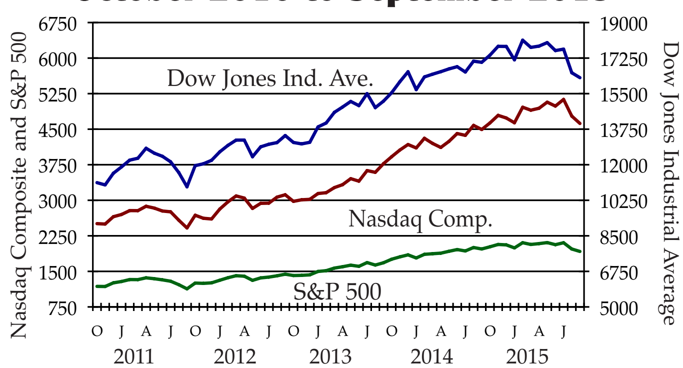
Each investor's needs are different, so the strategy that optimizes one person's allocation may not work for the next investor. As a general rule, as you approach retirement age, you'll want to increase the percentage of your portfolio that's invested in bonds. If you have other stable retirement resources, such as pension benefits or Social Security, you may be able to allocate a larger percentage of your portfolio to stocks. While you don't want to near retirement with a portfolio that's too aggressive, some stocks will help your portfolio continue to grow. ❍❍❍

Market Data

	Month End			% Change	
	Sep 15	Aug 15	Jul 15	YTD	12 Mon.
Dow Jones Ind.	16284.70	16528.03	17689.86	-8.6%	-4.4%
S&P 500	1920.03	1972.18	2103.84	-6.7	-2.6
Nasdaq Comp.	4620.16	4776.51	5128.28	-2.4	2.8
Wilshire 5000	19959.31	20601.69	21965.00	-6.8	-2.4
Gold	1114.00	1127.00	1098.40	-7.1	-8.4
				Dec 14	Sep 14
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.29	0.26	0.33	0.43	0.42
3-month T-bill rate	0.02	0.10	0.05	0.04	0.02
20-yr. T-bond rate	2.67	2.49	2.73	2.47	3.10
Dow Jones Corp.	3.26	3.33	3.31	3.08	2.90
Bond Buyer Muni	4.40	4.42	4.40	4.31	4.42

Sources: *Barron's, Wall Street Journal*

Stock Indices
October 2010 to September 2015



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 54% of companies offer phased retirement to at least some workers, while only 18% of companies offer phased retirement to all or most workers (Source: Transamerica Center for Retirement Studies, 2014).

Approximately 90% of workers with a workplace plan have saved for retirement, compared to 20% of workers without a workplace plan (Source: Employee Benefit Research Institute, 2014).

In a recent survey asking what makes retirees happiest, 81% said good health, 58% said financial security, 36% said friends and family, and 20% said having a purpose (Source: *Money*, November 2014).

Approximately 10% of baby boomers never expect to retire, while 39% say they will retire at age 66 or older, 24% say age 65, and 27% say age 64 or younger (Source: *The Wall Street Journal*, October 13, 2014).

Individuals between the ages of 65 and 74 spend seven hours a day on leisure and sports activities (Source: *Money*, December 2014).

Only 18% of workers are very confident about living well in retirement (Source: *Money*, November 2014). ❍❍❍