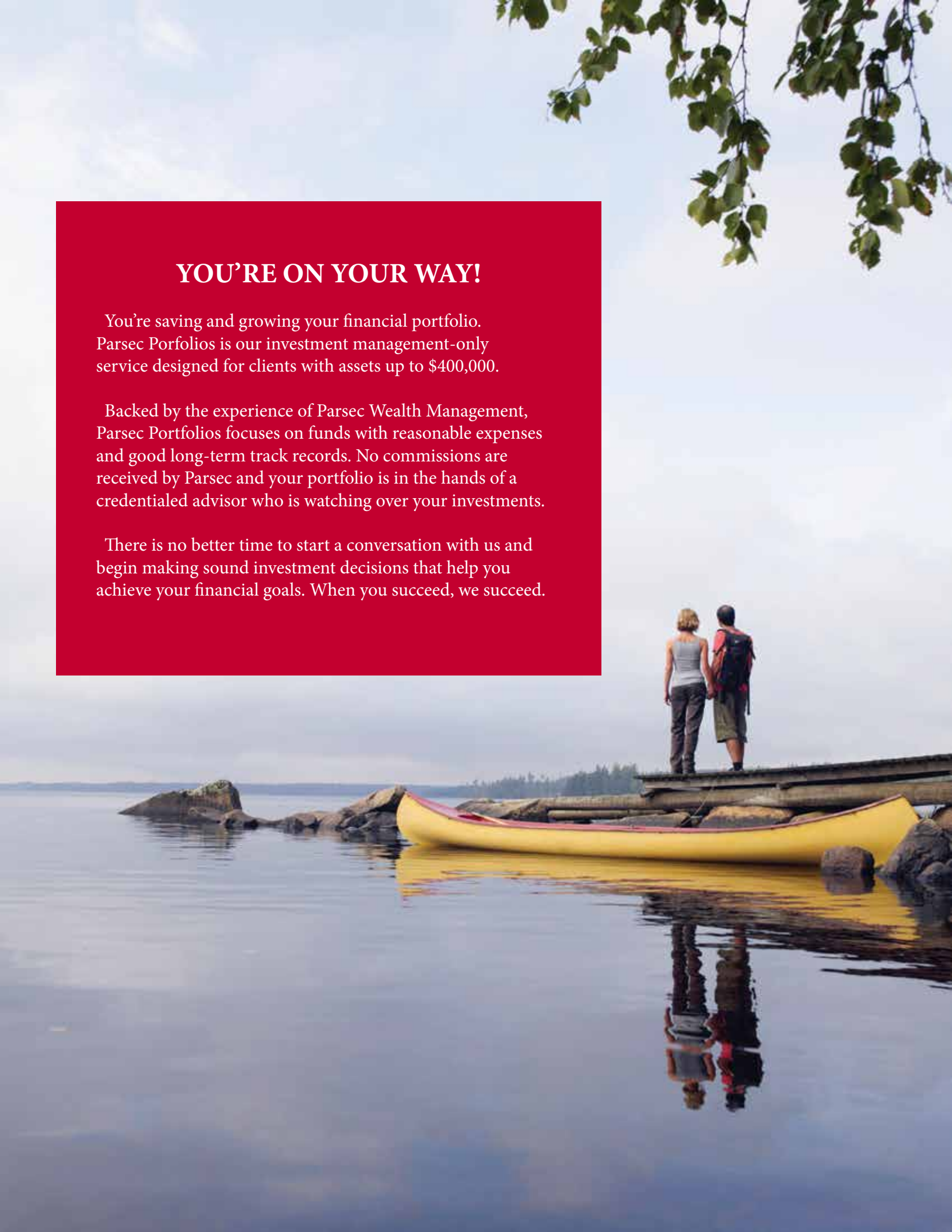
ParsecFinancial

Financial Fundamentals Edition



YOU'RE ON YOUR WAY!

You're saving and growing your financial portfolio. Parsec Porfolios is our investment management-only service designed for clients with assets up to $400,000.

Backed by the experience of Parsec Wealth Management, Parsec Portfolios focuses on funds with reasonable expenses and good long-term track records. No commissions are received by Parsec and your portfolio is in the hands of a credentialed advisor who is watching over your investments.

There is no better time to start a conversation with us and begin making sound investment decisions that help you achieve your financial goals. When you succeed, we succeed.

Note from the CEO

Richard Manske, CFP®
Chief Executive Officer

Many of our clients are not aware that Parsec Financial enjoys a thirty-six year history. As I accept the duties of CEO, I feel a great sense of pride in that history. Since joining the company in December 1996, I have seen our industry and our company change markedly. Even though the capital markets and financial planning industry have gone through dramatic changes, Parsec's values have remained constant. That is, the fiduciary principles of a client-first approach and a business model that prohibits conflicts of interest have stayed at the core of our firm through the years. These values are important to me, and they will continue to guide our direction for the future.

Many of the best financial planning concepts are multi-generational. The time value of money ensures that strategies are best optimized over long timeframes. Young investors enjoy this advantage, but many of them are unaware of the opportunity. It is up to grandparents, parents, aunts, uncles, and experienced adults to impart their wisdom to the younger generation.

Funding an IRA or Roth IRA is one of the simplest financial planning concepts to enact; however, we often see young people not taking advantage of this opportunity. With this version of our newsletter, we share strategies for setting a successful foundation. If you know someone who may benefit from reading it, please share! And of course, no matter your age or stage in life, you can all benefit from these strategies.

We look forward to a prosperous 2016.

Financial Fundamentals Edition

Columns

6 **Jim Smith's Crystal Ball**
The U.S. Economy Keeps Chugging Along

16 **Mental Wealth Corner by Carrie Tallman, CFA**
Practicing Mindfulness with Our Money

17 **Inside Parsec by Cristy Freeman, AAMS®**
What's Happening at Our Firm

20 **Q&A**
Neal Nolan, CFP® & Laura Greene, RP® answer questions.

21 **Media Review**
Cristy reviews a book about decluttering.

Features

9 **A Bad Credit Score Can Cost You**
Carrie explains the importance of a good credit score.

11 **A Dirtbag's Guide to Personal Finance**
As a professional kayaker, guest contributor Chris Gragtmans has a unique perspective on finance.

14 **So, You Want to Buy a Home?**
Melissa uses her past experience as a real estate broker to guide you through the process.

18 **Traveling on a Budget**
Ashley discusses how to travel well on a frugal budget.

22 **Teaching Kids about Money through Everyday Actions**
Harli shares her stories about teaching good financial habits to her daughters.

23 **When Things Are Going Well, Watch Out!**
Cristy reveals how she began a successful savings plan.

25 **Do You Want to be Independently Wealthy?**
Travis discusses how to develop a plan for independent wealth.

Contributors

Travis Boyer is a senior financial advisor. He is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER™ practitioner. ***Do you have a goal for this year?*** *Now that my fiancée Jenny has moved to Asheville, I will do my best not to drive her mad. My goal is to marry her in September!*

Cristy Freeman is a senior operations associate. She is an Accredited Asset Management Specialist™ designee. ***Do you have a goal for this year?*** *I want to take more adventures with my dog. We get so little time with our pets (and family) so we should enjoy every moment.*

Ashley Gragtmans is a financial advisor and the Director of Marketing. She is a CERTIFIED FINANCIAL PLANNER™ practitioner. And, yes, Chris (bio below) is her husband. ***Do you have a goal for this year?*** *Take advantage of living close to work and ride/walk to work more.*

Chris Gragtmans is one of the most respected personalities in the paddlesports industry. He is a champion kayak and standup paddleboard athlete, editorial thought leader, business owner, and professional speaker. ***Do you have a goal for this year?*** *Have one stretching/meditation session every weekday.*

Laura Greene is a client service specialist. She is a REGISTERED PARAPLANNER®. ***Do you have a goal for this year?*** *Sell my house and move closer to Asheville.*

Neal Nolan is a senior financial advisor and Director of ERISA Services. He is a CERTIFIED FINANCIAL PLANNER™ practitioner and holds the Accredited Investment Fiduciary (AIF®) designation. ***Do you have a goal for this year?*** *I want to visit Disney World at Christmas.*

Harli Palme is the Chief Operating Officer and Chief Compliance Officer. She is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER™ practitioner. ***Do you have a goal for this year?*** *I want to read more books.*

Jim Smith is the Chief Economist. He has been an Adjunct Professor at Kenan-Flagler Business School at UNC Chapel Hill since 1988. ***Do you have a goal for this year?*** *Have as pleasant as possible time moving to and settling comfortably into our new home.*

Melissa Stamatiades is a portfolio associate. Her professional experience includes working with the U.S. government as well as the institutional asset management and real estate fields. ***Do you have a goal for this year?*** *I want to eat better.*

Carrie Tallman is the Director of Research. She is a CFA charterholder. ***Do you have a goal for this year?*** *I want to pass the CFP exam!*

Jim's Crystal Ball

The U.S. Economy Keeps Chugging Along

Many people would look at the performance of the U.S. economy since the last recession ended in June 2009 and be very disappointed. The primary reason for their malaise would be the simple fact that not only has this expansion been the weakest since several in the 1879-1899 period, it has had no "flashes of brilliance" whatsoever.

Chart 1 shows the year-over-year percent change in real GDP for every quarter for which these data are available. The ratcheting down in the growth rate since June 2009 as compared to the period before the recession began in December 2007 is quite obvious. We have been stuck in a range from 0.9 percent to 3.1 percent (the third quarter of 2010) since this year-over-year comparison turned positive in the first quarter of 2010. That 3.1 percent in the third quarter of 2010 is the only quarter of the 25 quarters of expansion so far that matched the 1929 through 2014 average for real GDP growth. The average real GDP growth rate for this expansion so far is only 2.1 percent. Coincidentally, that is exactly the growth at a seasonally adjusted annual rate in the third quarter of 2015, as reported by the Bureau of Economic Analysis on November 24.

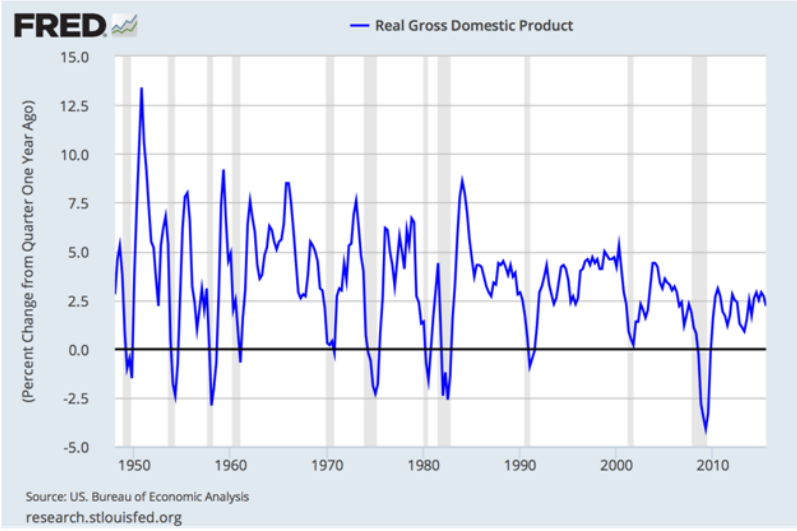


Chart 1

Other observers would look at this historically slow growth rate and say it looks pretty good in comparison to all other developed countries. They would be correct because all 19 members of the Euro Zone (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain) as well as Australia, Canada, Japan and New Zealand have seen growth even slower than that of the U.S. over this period.

The consensus forecast among the 79 people who participated in the Bloomberg Outlook Survey of November 6-12 is for no improvement in this trend. Their median forecast is for real GDP growth of 2.4 percent in 2015 and 2.5 percent in both 2016 and 2017. Those forecasts are plausible, but not very satisfactory.

My forecasts are somewhat higher. It seems to me we'll probably hit 2.5 percent this year, thus matching 2010 for the best growth on a year-over-year basis since the 3.3 percent of 2005. If business fixed investment in buildings, research and development, computers and other equipment picks up in order to raise productivity and increase the competitiveness of U.S. firms, then the real GDP growth rate could rise to 3.7 percent in 2016. That would be the best we've seen since the 3.8 percent of 2004.

If voters elect a Congress and a President on November 8, 2016 who are committed to "getting America moving again" (a campaign slogan of Senator John F. Kennedy in 1960), then we could get much stronger growth in 2017. My current forecast is that we could see a 4.4 percent real GDP increase in 2017 if good growth policies are enacted. That would be the best performance for the U.S. economy since the 4.7 percent gain in 1999.

THE CONSUMER SECTOR LOOKS STRONG

Consumers account for the overwhelming majority of GDP in the U.S., so a healthy consumer sector is essential for a robust economy. On December 4, the Bureau of Labor Statistics gave us a lot of good news on this front.

Chart 2 shows that total civilian employment was a record 149,364,000 people in November on a seasonally adjusted basis. That was an increase of 2,033,000 people or 1.4 percent from a year earlier. The unemployment rate fell from 5.8 percent to 5.0 percent over those 12 months.

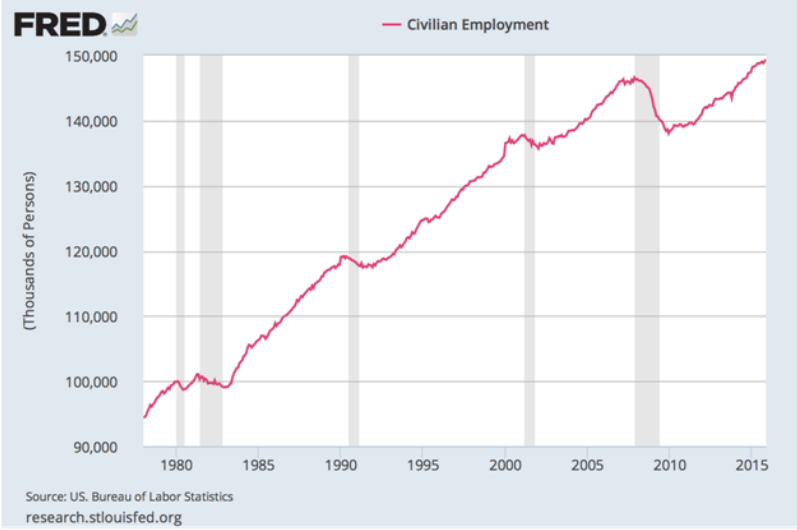


Chart 2

The total number of nonfarm payroll jobs not only posted a new record high in November, but also grew a little faster than the total shown above. Chart 3 shows there were 142,900,000 such jobs on a seasonally adjusted basis in November. That was a gain of 2,637,000 such jobs or 1.9 percent from November 2014.

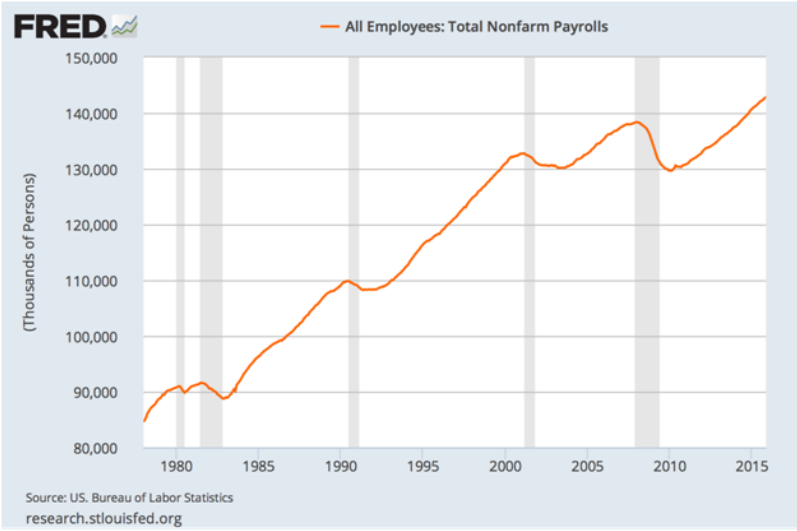


Chart 3

There was some particularly good news about construction employment in the report. There were 6,490,000 nonfarm payroll jobs in construction, the highest since January 2009. The number of unemployed people looking for work whose last job was in construction fell from 629,000 in November 2014 to 536,000 this November. That's the lowest November total since 2000. The unemployment rate for construction workers fell from 7.5 percent in December 2014 to 6.2 percent this December. That's the lowest for any November since 2007, the last month before the last recession began.

You would expect all these increases in employment to lead to strong growth in disposable personal income and that has certainly been the case. On November 25 the BEA gave us all the exciting details.

Chart 4 shows the monthly data for the last twenty years. Disposable personal income (DPI) means what you have left after taxes and "real" means adjusted for price changes. The current base year is 2009. You can clearly see the old record spike of real DPI in December 2012 of $12,194.8 billion at a seasonally adjusted annual rate. That was caused by the successful efforts of tens of thousands of people affected by the increase of the top marginal income tax rate from 35.0 percent in 2012 to 39.6 percent in 2013 to shift income forward into 2012.

That record stood until June 2015. Every month from then through October has posted a new high. This was $12,394.0 billion at a seasonally adjusted annual rate in October.

All major economic indicators are positive for the U.S. economy now. That is expected to be the case throughout 2016 and 2017 as well. Every other major country in the world except China and India would love to be where the U.S. is now and to have a similar outlook. Only China and India among the 20 largest economies in the world will outperform the U.S. in terms of GDP growth rates this year and the next two.

So, it's up to you to decide whether the U.S. economy is half empty—an uncomfortably slow growth rate—or half full—our GDP is going up, our incomes are going up, our unemployment rates are going down. Happy choosing!

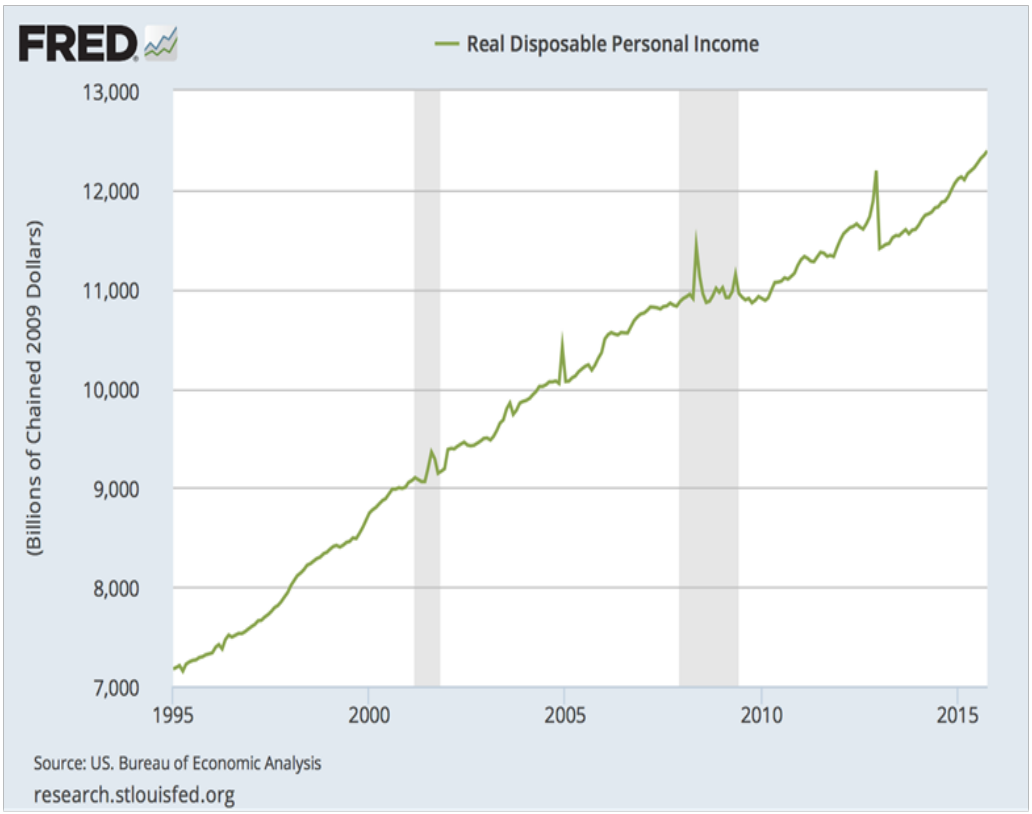


Chart 4

A Bad Credit Score Can Cost You

Carrie Tallman, CFA

For those of you interested in becoming financially independent, understanding and managing your credit score is critical. There are admittedly lots of articles on the subject, but given its key role in lowering your living costs and accumulating wealth, I think the topic is worth revisiting. In addition to reviewing the basics, we'll touch on some new connections between your credit score and social media.

At the fundamental level, a credit score is a three-digit number generated by a mathematical algorithm using information from your borrowing and spending behaviors. These behaviors are tracked in your credit report by various credit bureaus. How often you pay your bills on time, the size of your loan balances, and the length of your credit history, among other information, is used to determine how risky or safe you are in the eyes of a potential lender. This matters because how you are perceived by a lender will ultimately determine how much you'll be charged to borrow money. The interest rate you're offered based on your credit score can mean the difference between hundreds of thousands of dollars, or more, over the course of a lifetime.

In addition to affecting the interest rate you receive on a loan, your credit score is used by potential employers when you apply for a job, landlords when you're ready to rent, utility companies, insurance agencies, and even your cell phone carrier. Poor credit can cost you a job and even a place to live.

So what's a good score and what's not? And how do you improve your existing score? Good questions, but first a little background. While several credit-scoring models exist, the one most often used in the U.S. is the FICO credit score. FICO credit scores range from 300 to 850, where a higher score suggests a lower-risk candidate. Someone with a perfect score of 850 will receive the lowest interest rates available on various loans including home mortgages, car loans, credit card balances, and student loans. Someone with a low score in the 300's may not be able to get any credit and if they can, interest rates on those loans are likely to be sky-high. This can lead to a vicious cycle where high loan payments can increase the odds of missing a bill or even defaulting on a loan, which in turn pressures someone's credit score. In general, a FICO score of 700 and higher is considered a good credit score while a score below 650 is considered poor.

U.S. law requires credit reporting agencies, including Equifax, Experian, and TransUnion, to provide a free credit report annually. While the law does not mandate free access to your actual credit score, more organizations, including most major banks and credit card companies, are allowing consumers to access their credit scores at no charge.

So now that you know your credit score, how do you improve it? Credit rating agencies or bureaus look at five areas to determine your credit score. These

include, in order of importance, payment history, amounts owed, length of credit history, new credit, and types of credit used. Thus, the single best way to improve your credit score is to pay your bills on time. This includes credit card payments, rent, mortgages, and car payments. The second best thing you can do is reduce your outstanding balances. Other credit score boosts include sticking with the same credit card for many years and resisting the temptation to open new credit cards. Finally, take advantage of your free credit report and check for errors. You're allowed to dispute erroneous information, which if corrected, can significantly increase your credit standing.

The basic metrics for determining a credit score have been in place for decades now. What's new is that credit bureaus are starting to examine how other, non-financial activities such as social media posts can enhance their credit scoring tools. For example, according to the *Financial Times*, FICO is developing new ways to price loans, which include the use of information volunteered on Facebook or other social media. While these programs are not in use today, startup technology firms are actively examining borrowers' smartphone usage in Africa to determine creditworthiness.

Lenders and credit bureaus are constantly trying to improve their ability to assess credit risk and our prolific use of technology, including social media, could be the next big target. There is a wealth of data in our technology usage and it may only be a matter of time before behavioral scientists find new links between our social media presence and our creditworthiness. In December 1912 when J.P. Morgan testified before the Bank and Currency Committee of the House of Representatives, he was asked if credit was not based on money or property. His response holds true today: "No, sir, the first thing is character."

While credit scores only skim the surface when it comes to a person's character, they are an important piece of the financial-independence puzzle. Consistent and responsible use of credit can dramatically lower the interest rates you'll pay over the years and in turn, significantly improve the quality of your life. With less financial stress and more disposable income you'll be freed up to direct your money towards endeavors that truly reflect your core values. In which case, your character can speak for itself.

You can obtain a free credit report every 12 months. The report shows data from the three major credit reporting agencies: Equifax, Experian, and TransUnion.

Visit:

https://www.annualcreditreport.com

A Dirtbag's Guide to Personal Finance

Chris Gragtmans
Guest Contributor

Author's note:
I am not a financial advisor, and I am not certified to offer financial advice.
Below are just a few opinions based on experience.

Growing up as a whitewater kayak addict, money was always a very simple thing for me. I worked seasonally and generated as much income from my sponsors as possible, and then translated those resources directly into kayaking trips, cameras, and toys. Money in, money out - I became a master of stretching a dollar but spent every dollar that I earned.

I could sleep in my car for weeks on end. My kayaks and bikes generally equaled triple the value of said vehicle, and I could survive off of very little for an entire summer of paddling. My international trips were fueled by ramen noodles, oatmeal, and peanut butter. I have memories of going to prize money competitions needing to win in order to eat. It's interesting how a sport that you love can teach you the art of frugality. I know many climbers, mountain bikers, and skiers who have very similar mindsets.

This is an extremely fun way to live, but a few years ago, I had a bit of a paradigm shift. Several positive influences came into my life. Some were young people who were on the financial fast track. Others were the older generation who regretted not getting on that track and were willing to share their lessons with me. I started absorbing knowledge and reading and discussing personal finance. My eyes opened to the incredible power of compounding returns, and the importance of saving and investing from a young age.

Money is a great servant, but a bad master.

-Francis Bacon

I started thinking about two divergent paths: how my life would look in the future (say 25 years) if I started taking these things seriously, and how it would look if I didn't. There were examples of both of these paths in my life, and the disparity in their situations was sobering. I realized that the people who hadn't planned ultimately had far less freedom. By not making a few small sacrifices in their younger years, they didn't have savings to lean on as life commitments hit. This lack of savings restricted their options and made them feel trapped in careers that they maybe didn't enjoy. These observations spurred me to think about what money actually represents, and this is when things really clicked.

dərt-bag
noun

Hyper-frugal adventure sports athlete

I realized that, to me, money simply represents freedom. I couldn't care less about flashy cars and big houses. Intelligent personal finance simply gives me the means and freedom to experience spectacular natural places and have as much fun as humanly possible in the outdoors for the rest of my life. It also means providing for my needs and those of my loved ones/future dependents without hesitation or strain.

While money certainly should never be the main goal of life, until you can satisfy a certain level of basic needs, I believe that it actually needs to be your primary focus. It is far more difficult to be truly happy and fulfilled if you're struggling financially. Scraping by paycheck-to-paycheck puts incredible strain on all areas of life. For me, it often also meant that I had an energy negative (for lack of a better term) relationship with the world around me. I was taking from the world more than I was giving to it.

I realized that in order to live the life that I want, have the relationships that I want, and eventually achieve financial independence (no longer need to work), I needed to be calculating with my financial decisions. Fast forward a few years to the present.…

After diligently applying everything that I could learn (and constantly striving to learn more), I am in a very happy place in this department. I am 28 years old, I

have an undergrad degree in Marketing, and I have received $0 in financial support from my family since graduation. I've paid off the $15,000 "personal skin in the game" for my education (an investment well worth it), and I love what I do for work. I am a professional kayaker, editorial contributor to several magazines in the industry, and a public speaker. I travel about three months out of the year (my personal sweet spot). I have remote work capability. All of these things translate into an amazing lifestyle.

On the financial side, I make an income that isn't extravagant but is completely sufficient for me. I own an LLC that absorbs all of my contract revenue. I make no more than 40% of my income from any single source. Since I keep my expenses low, a high percentage of my income goes into savings and investments.

It's extremely motivating to me to think that I will retire wealthy. It will occur without a trust fund or family money injection, without sacrificing my incredible lifestyle, and even if I don't ever increase my income (which I certainly intend to do). It will happen because I got serious and planned for it from a young age.

That is honestly the only thing you really need to do to be wealthy. I've learned from observation that our world loves the instant riches stories, but that is not how it happens 99% of the time. Wealth is a slow and non-sexy process of adhering to a few very simple rules.

Compound interest is the eighth wonder of the world.

He who understands it, earns it.

He who doesn't, pays it.

-Albert Einstein

The sad thing is that these rules are not taught in school. I am far from an expert. On the next page, I have compiled a list of 10 things that have really helped me.

These are just my humble beliefs. The more I learn, the more I realize how little I know. I am fascinated by this subject; however, I am constantly amazed at how little focus our culture places on it. The reality is that as "dirtbags" we already know how to stretch a dollar. That is an extremely valuable skill. If we can use these skills to keep expenses low while income grows, some very exciting things start happening.

Personal finance decisions will have a huge impact on the trajectory of our lives and are the single most important thing that we can do to keep "living the dream" forever. Hopefully, this has been helpful. See you on the river!

Dirtbag's Guide to Personal Finance

(in no particular order)

1) **Create an emergency fund.** This should equal at least 3-6 month's living expenses. Having this safety net in place allows you to make the big plays.

2) **Get rid of credit card debt.** Credit cards are a great tool if used properly, but they are one of the biggest financial anchors dragging Americans down. Pay that thing off every month, and never carry a balance again.

3) **Don't sweat appearances.** For most of us, we are faced with a very simple decision (although we may not be conscious of it). We can choose to either appear wealthy now or actually be wealthy later in life. If we buy fancy things and don't focus on putting money away, we'll have nothing to show for it later. This is the critical difference between focusing on income versus focusing on net worth. Net worth is a far more important number.

4) **Monitor your credit score.** Having a good credit score will save you tens to hundreds of thousands of dollars through the course of your life. Guard it.

5) **Start saving and investing as early as possible.** The power of compounding returns is staggering. The classic example is that, if a hypothetical person saves for a retirement goal, they will need to save twice as much per month to arrive at the same place if they start at 35 years old versus 25. This number only gets more exponential beyond that age. Pay yourself first.

6) **Set goals in all aspects of life, including financial.** Long-term and intermediate goals really keep us focused and on track and are incredibly powerful.

7) **Take advantage of all possible employer-provided retirement benefits.** Use all of your 401(k) match - it's free money! If you're like me and you're self-employed, open a Roth IRA and do your best to max it. If you can max your Roth, check out a SEP IRA or Individual 401(k).

8) **Take advantage of every *legal* tax strategy.** This is an obvious one. Taking the time to gain a working knowledge of tax law can really change the game, especially if you are self-employed.

9) **Get health insurance if you don't have it.** This one is really important for adventure sports athletes such as myself. The key factor for me was realizing that my parents would bankrupt themselves if I ever had critical health issues without health insurance.

10) **Give back.** One of the beauties of intelligent personal finance is the ability to be a philanthropist. Pick a percentage of your income (no matter how small) to devote to charity.

(Bonus)

Spread your knowledge. As you expand beyond these points and my very limited knowledge, share your findings with those around you. You will change their lives.

So, You Want to Buy a Home?

Melissa Stamatiades

Prior to moving to Asheville, I was a North Carolina Real Estate Broker for nearly a decade. First-time home buyers tend to be very eager but often have very little experience, if any, with the process of buying a home. It was a common occurrence to be asked, "What is the process for home buying?" The basics for buying a home are simple, but there are many things to keep in mind as you move through the process.

Getting ready

While it's easy to get caught up in the excitement, there are some important points to consider. Are you prepared financially? Do you know your credit score? Remember that paying for a home is not just the monthly mortgage payment. You'll also have property taxes and insurance. Maintenance and unexpected repairs should also be part of your plan. Your Realtor® can help answer questions about those "hidden costs," but you may also consider taking a first-time home buyer's course.

One of the earliest steps you should take is getting pre-qualified for a mortgage. Until you are pre-qualified, you do not know what you can afford. Do not make the mistake of guessing what price home you can afford. You may be disappointed if you find out you can't afford the home you want.

Be forewarned: The mortgage pre-qualification can be a labor intensive process. I recommend starting a file for the requested documents, which can include two months of bank or brokerage statements, pay stubs, credit card bills, and savings accounts. Your file can be electronic, and many brokers now use software which allows you to upload your documentation and even sign electronically.

Early in the process, you should hire a Realtor® with whom you are comfortable. They should be an expert in their area and someone you trust to negotiate on your behalf. You should feel that you communicate well with them and that they understand your needs. This is important because this person will be your advocate throughout your home search, negotiations, and

closing. Once you know your budget and have a Realtor®, you are ready to find your home!

Find a home

Let your Realtor® help with the home search. You can drive through neighborhoods and search online yourself, but a Realtor® can help make the time you invest in searching for a home more efficient. Decide on your non-negotiables and differentiate them from wish list items. Keep in mind that you can change paint or landscaping, but you cannot change the neighborhood or location.

A good starting point for building your search parameters is looking at where and how you live now. What do you love about it? What would you change?

After you find the house, consider making a strong offer. Lowballing rarely works, and your Realtor® will

already have a feel for how negotiable the sellers are.

When the seller fully accepts your offer, you are under contract and ready to move toward closing.

Prepare for closing

As you prepare for closing, several things should happen: a survey, title search, closing attorney paperwork, insurance, pest inspections, appraisal, and home inspections with repair negotiations. While some of these items may not be required by your lender, each of these helps you understand the condition of your property and could aid in repair negotiations with the seller.

It is important to understand what Due Diligence means in your state; your Realtor® will explain this. Take notes and ask questions. In North Carolina, sellers are typically not required to make repairs, but often the repairs can be negotiated.

Now you wait for these three words: "clear to close." This is the term the lender uses once all requirements for a mortgage have been satisfied. Make sure to talk with your financial advisor about having adequate insurance. While we can't sell insurance, we can help point you in the right direction.

For many people, their first home purchase is the first time they will work with an attorney, Realtor®, insurance agent, repairman, and mortgage broker. This can seem intimidating. You should remember that you are the customer and should feel comfortable asking questions. Your Realtor® has heard all the questions before and can help you navigate the process.

Closing

This is the day the property legally changes hands from the seller to you, and the day that you officially get the keys. Your closing costs will often include your first month's payment. What this means to you is that closing the last day of the month versus one day later (the first day of the next month) can result in hundreds or thousands of dollars in pre-payment at closing. If cash is a concern, ask your lender which day of the month you should close, and then follow his advice.

Get your pen ready. Closing will require you to sign multiple versions of several documents. Your attorney will give you a copy of the paperwork. Save this where you'll be able to locate it as needed. Now you are ready to move in! Congratulate yourself on accomplishing one of life's major investment decisions.

Moving and protecting your investment

As you prepare for closing, it's a good time to find a mover, schedule for utilities to be connected, and change your address with the post office and the DMV.

You should consider hiring professional movers with insurance. Friends may offer to help, but what happens when something gets broken? Who pays for it?

Make sure you have adequate insurance and start planning the long-term list of repairs or replacements for the future. Have a twenty-year old heating system? Time to start saving for the day it goes out.

Once you've settled into the home, consider if DIY projects could be fun for you and some friends. Remember the friends that I told you not to let help move? Consider asking about their painting or landscaping skills. You can improve curb appeal by giving the landscaping a good prune and cleaning the front porch and door, or take it a step further and add flowers or shrubs and change the color of the front door. These can have a big impact on the feel of your new home with minimal investment.

Good luck!

Mental Wealth Corner

Carrie Tallman, CFA

"Mindfulness" seems to be the buzz word of the day. I've heard everyone from CEOs to blue collar workers use it in their conversations. Although I'm not sure it's being put into practice as much as it's preached, I'm happy to hear its rise in popularity. I bring up the term because I think it's especially useful (and overlooked) with regards to money. This is our first "Mental Wealth Corner" column - a play on "mental health" in case you didn't catch it. Thus, I would like to start by exploring how we can all benefit by applying mindfulness to our money.

Mindfulness can be defined as the gentle effort to be continuously present with experience. I meditate regularly, and this sounds like a fair description to me - especially the part about being gentle, which is easier said than done. To expand upon this, mindfulness in my view is really about slowing down and bringing awareness to our behaviors and thoughts. Thoughts and feelings are the precursors to our behavior and therefore critical to examine if we want to effect personal change.

Many of us would like to improve our financial situation, yet money and personal finances often drastically raise stress and anxiety. Finance can be a double-edged sword that feels safer to ignore. As many of you are aware, neglecting your finances can have disastrous consequences. For these reasons, applying even basic mindfulness to money can result in big, beneficial shifts.

Let me start by saying that being "continuously present" is a stretch goal. Any incremental level of new awareness around money, particularly when we've been completely unconscious, can lead to meaningful change. Let's look at what it means to be unconscious around money and why that happens.

I believe our society plays a big role here. Because of our preoccupation with money and the media's focus on wealthy individuals and their lifestyles, it's easy to get trapped in the idea that more money will finally make us happy. Don't get me wrong. I believe a strong financial base, a sound retirement plan, and a good quality of living provide the foundation for a fulfilling life. Beyond that level, the intangibles matter much more. If we're not careful, we may find ourselves identified with our financial status and view our net worth as a part of who we are.

In my view, this is essentially what it means to be unconscious around money. It's a state of mind in which we are so identified with our wealth (or lack thereof) that we make poor money choices driven not from a place of clarity, but from a need to maintain our identity at all costs. This can range from workaholic tendencies to buying gifts for friends and family when we cannot afford it to ignoring mounting credit card debt. Whenever we make a financial decision from a place of fear or anxiety, we are unconscious.

These are extreme examples, but a lack of money mindfulness can happen on a micro-level as well. If left unchecked, it can grow worse from there. The point is to start bringing awareness to how we spend, when we spend, and why we spend. In other words, bring more money mindfulness to your day-to-day activities.

So, where to begin? You can start a money mindfulness practice by slowing down. Often, money stress is tied to speed. Our money anxieties feel uncomfortable. In order to avoid those feelings, we react (often unconsciously) by making split-second decisions.

Not long ago, I had an unconscious money moment. I had lunch with an old friend who knew I made more money than she did. When the bill came, I offered to pick up the tab. It was a split-second decision based on avoiding the guilt I might feel if I didn't pay. It was not until a few hours later that I felt some uneasiness. After looking closer, I realized that I was upset at myself for assuming responsibility when it wasn't mine.

There are many reasons why we go unconscious around money, and they're different for all of us. Looking honestly at what we are doing – no matter the reason – can help us develop a healthier relationship with our money and our friends, as it were.

A next step to practicing money mindfulness is curiosity. When we engage in money behaviors that feel bad (whether that is being too stingy or overly generous), staying interested in our actions is paramount. Our cue to look a little closer is often discomfort or some unwanted or bad feeling.

When uncomfortable feelings arise around money, it's usually the sign of a disconnect between our behavior and our core values. In the example above, my behavior of paying the bill was out of alignment with my need for personal financial integrity. In that situation, I took responsibility for my friend's tab even though it wasn't mine. I saw that I was operating on the false notion that she expected me to pay, and, as the higher income-earner, I ought to pay.

This leads me to a third step: examining our beliefs. I apparently had multiple beliefs about my role in the friendship, my obligation to pay, and fear over the negative consequences tied to not paying. It was interesting to see how bringing money mindfulness to a situation can uncover a whole lot more that often doesn't have much to do with money. This is why it's such a great practice.

After I examined and even wrote down all my assumptions (i.e. beliefs and thoughts), I was able to objectively look at them. Were they useful? Were they true? Were they actually contributing to the relationship? In this case, the answer to each question was a resounding, "No!"

Now we come to the final step in practicing money mindfulness: identifying new beliefs that are true and helpful. Sadly, I've discovered that my current beliefs frequently stand in direct contrast to what is actually true or helpful. It's easy to criticize myself at this point but again, not helpful. Instead, a little compassion goes a long way. I learned my money behaviors over many years. At some point in my life, they may have been helpful. Otherwise, I wouldn't have adopted them.

Now that I'm an independent adult it's the perfect time for a little (or a lot) of mental housecleaning. Every uncomfortable money situation is an excellent opportunity to examine our beliefs and determine if they are really serving us. Shining the light on why we are doing what we are doing is a significant increase in awareness and one that can allow us to change our money behavior.

Beginning a money mindfulness practice can help shed new light on unconstructive money behaviors and have the added side effect of improving our relationships with friends, family, and, most importantly, ourselves. Slowing down and paying attention to your money behavior is a great first step. Noticing when you feel discomfort around a certain situation is a cue to look more closely and suggests a misalignment between your behavior and core values. From here, examine your beliefs or unspoken thoughts about the situation. Then ask yourself – are these beliefs true? Are they helpful? If not, now is the perfect time to find some new, more helpful beliefs about money!

Inside Parsec

Congratulations are in order for three of our colleagues. Recently, the Board of Directors named Rick Manske as Parsec's Chief Executive Officer.

Bill Hansen has been named Chief Investment Officer and President.

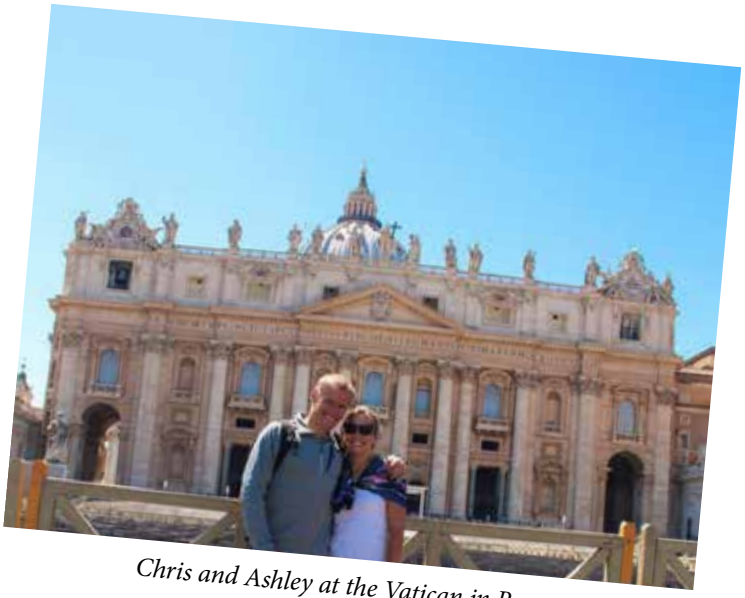
Harli Palme has been named Chief Operating Officer. She remains our Chief Compliance Officer.

All three advisors will continue to work with their clients. In recent years, we have developed a team structure for serving our clients. It ensures there is always someone available on the team.

Congratulations to Rick, Bill, and Harli on their new roles!

Traveling on a Budget

Ashley Gragtmans, CFP®



Chris and Ashley at the Vatican in Rome.

A few years ago, I was sitting around a table with several friends. We hadn't been together in a while, so we were catching up on everything we had missed during the last year. We talked about new jobs, new homes, and lots of travel.

I was disheartened when we started talking about travel. I realized that I hadn't been anywhere and really wanted to go everywhere. This didn't seem the case with these ladies. One of my friends had just gone to Africa and hiked Mount Kilimanjaro. Another spent the summer island hopping in the Caribbean. Another was planning a summer trip through Spain, France, Italy, and Germany before flying back home from Ireland.

I couldn't figure out how they were doing it. I knew most of their financial situations, from college debt, mortgages, expenses and salary. At first, I thought their parents must be bankrolling them. I quickly found out that I was wrong. They just happened to know something I didn't – how to travel on a budget.

It's important to note that traveling on a budget is not the same as being cheap. Think of it as being frugal. Frugal people care about the value and quality of things. Cheap means you only think about the cost with no regard for the quality. So, here are a few ways to get the same quality, but at a fraction of the cost.

Flying: Take the time to research flights. It's easy to pick the best time, the straight shot, and the nicest accommodations. However, if you want to save on flights, you may consider flying redeye or cobbling together several itineraries. I recently flew to Italy for less than $700 by using this method.

Rewards: Research credit cards that offer airline miles. This will help tremendously with budget flying. You can potentially fly for free if you save up your miles and don't cash them out on other things. It's important to note that you should never carry a credit card balance.

Lodging: When going on my recent European vacation, I was bummed to see that most hotels were over 200€ per night. I realized that staying in a hotel (which would be easy) was going to mean going way overbudget. I looked into other options. It's incredible how affordable airbnb and other private rental sites can be. Often, the accommodations are very nice. We paid 60€ a night for a lovely apartment at the edge of Vatican City in Rome. Breakfast was even included in that nominal amount. Note: Read reviews!

Cars: Getting a car can be stressful in other countries. Not only do you have to be educated on local traffic laws, you also must remember where you parked your car. Save yourself the $40/day rental fee and the $20/day parking fee, and ride the local metro - or better yet, walk!

Touristy restaurants: Avoid these like the plague. Any restaurant that is within a stone's throw from a major tourist attraction is going to gouge you on prices. Also, if you see signs that say, "We speak English," this is code for, "We raise prices." Learn how to ask for the special in local languages – you really can't go wrong.

Adapt to other tastes: You don't go to Germany to order a glass of wine, Rome to get a cheeseburger, or the U.K. to drink coffee. Immerse yourself in the culture and enjoy the experience. By going with the flow, you'll get the best quality and service for the best prices.

Buy a guide book: Not buying a guide book to save money is penny-wise and pound-foolish. Rick Steves has the best books – offering thrifty tips, walking tours, and so much more. You'll end up saving considerable amounts of money by using the book as your guide, rather than paying for tours.

Trains: Second class will arrive at the destination just as quickly as first class. I was recently forced to buy a first class ticket due to lack of preparation. The only difference in my seat was a very minimal increase in comfort at twice the cost.

Use a credit card: Some people may debate me on this. If you have a credit card that offers no foreign transaction fees, use it. This is much easier, safer, and less costly than getting money at an ATM, which always charges transaction fees.

Wear a money belt: Protect your money. Pick pockets are very real, very sneaky, and very good. While watching some dancers in a square in Rome, I noticed someone walk up to my husband and unzip his backpack. Chris had no idea and noticed no movement in his pack. Thankfully, I noticed and was able to stop the person. They did get our Trader Joe's wasabi-covered almonds. It could have been much worse…

Travel is very important to me. Visiting other countries and immersing myself in other cultures is wonderful. However, I don't want to sacrifice my retirement date by being frivolous. Diligent research can save you hundreds, if not thousands, in travel expense while keeping you on track to meet your retirement goals.

Scuba diving in St. Lucia

Visiting the Duomo in Florence, Italy

Neal Nolan, CFP® & Laura Greene, RP®

In our inaugural Q&A column, we discuss the gains and losses report as well as IRAs.

It's January, and I have not received my 2015 Gains and Losses report from Parsec. Where is it?

The custodian is now responsible for reporting this information to the Internal Revenue Service. To have the most accurate data, our clients should use the information provided by the custodian on the year-end report.

I need to send a summary of my gains and losses to my CPA. How can I obtain that information?

We advise our clients to use the year-end data provided by the custodian.

How much can I save and deduct to my traditional IRA in 2015?

Assuming you have earned income, the IRS will allow you to contribute $5,500 to your IRA (if you are age 50 and over, you can save an additional $1,000).

Married couples filing jointly may be able to fully deduct their contribution provided their income is less than $98,000. Single filers have a lower income threshold of $61,000. Recently, the IRS announced an update to the funding limits to 2016 and remain unchanged.

I have an employer-sponsored retirement plan, should I make contributions to my IRA?

We recommend maximizing the contribution to the retirement plan before making contributions to an IRA for two reasons: 1) the contribution limits are generally higher for employer-sponsored retirement plans, thereby allowing you to save more and pay less in current-year income taxes and 2) the IRS will not allow you to make a deductible IRA contribution because you are covered by an employer-sponsored retirement plan.

Many of our clients make spousal IRA contributions. These contributions are generally deductible as long as the spouse is not covered by a employer-sponsored retirement plan, household income is less than $183,000, and the married couple is filing a joint tax return in 2015.

How much can I contribute to a Roth IRA in 2015?

Assuming earned income of less than $183,000, married couples filing jointly can save $5,500 to their Roth. Single filers can contribute as well, provided their income is less than $116,000.

Keep in mind, the IRS also allows "catch-up" contributions of an additional $1,000 for savers 50 years old and older.

Should I contribute to a Roth?

That is an individualized answer. Generally speaking, if you believe that you'll be in a higher tax bracket in retirement than you were when you were working, there is a good chance that a Roth IRA is a good savings vehicle for you.

Those finding themselves in a lower tax bracket in retirement, may find the Roth IRA less advantageous.

Keep in mind there is another option called a Roth Conversion IRA. This is where you make a non-deductible IRA contribution and then convert it into a Roth. If you use this strategy, you should be aware that this is considered a taxable event but can be done without an early withdrawal penalty. The taxation amount will vary based on amounts held in tax deferred IRAs by the individual.

What is the origin of the term "Roth IRA?"

It was established as part of the Taxpayer Relief Act of 1997 and named after Senator William Roth of Delaware.

E-mail your questions to newsletter@parsecfinancial.com.

Media Review

Cristy Freeman, AAMS®

Welcome to our first-ever media review column! In each newsletter, we will discuss a book, movie, or other media offering that we hope you might find interesting. You will hear from different individuals within the firm, so you can experience different perspectives.

January launches tax season. As I prepare for that dreaded tax filing, I gather documents and make sure my records are in order. Every year, I notice all the clutter in my house. I am not a hoarder, but I do have a difficult time letting go of some things. I rationalize that I might need them some day, so I cannot donate them or toss them into the recycling bin.

I decided to buy *The Life-Changing Magic of Tidying Up: The Japanese Art of Decluttering and Organizing* by Marie Kondo after reading glowing reviews of the book. It is a *New York Times* bestseller, and, at only 206 pages, it is a quick read.

As the author tells us repeatedly, she is a renowned expert in Japan, and her services are in high demand. She spends a lot of time talking about her personal experiences with "tidying," a word that is used so much I cringe as I type it. I appreciate a little background so I know the person dispensing advice has personally dealt with the problem. However, by page 30, I found myself saying, "Oh, get to the point!"

Fortunately, she does. Her advice is thought provoking. In her opinion, we should view objects as things that bring us joy. If an object does not bring you joy, then you should remove it. Look at it from the practical side – discarding an unused item means you have one less thing to dust.

She recommends a thorough purge by category, not by room. The order should be clothes, books, papers, miscellaneous stuff, and mementos. Her method is quite firm. She does not advocate attaching a lot of sentimentality to an item. For example, you might say, "I cannot discard this sweater because my mother bought it for me." What is more important? The memory of the gift, or the sweater that is two sizes too small and too ugly to wear in public? Toss it.

Some items should be kept for practical reasons. I have listed a few of those in the chart below. In your massive purge of clutter, do not discard these items too soon.

Overall, I found the book to be interesting and helpful. If you skip over the parts about her past experience, it can provide good advice. As I read the book, I found myself thinking about all the stuff I could donate or recycle. While I am not looking forward to the task, the end result will be worth it. Then, we will see if I can follow her advice and avoid the dreaded rebound.

Keep until you reconcile the statement:

- Bank deposit slips and ATM receipts.
- Credit card receipts, unless needed for tax, insurance, or warranty purposes.

Keep until you prepare annual tax return:

- Pay stubs.
- Bank statements. Discard after tax filings
- Credit card statements.

Keep for a fixed period:

- Tax returns and supporting documents. Discard after 7 years.
- Warranties and supporting documents. Discard when warranty expires, or you no longer own item.
- Investment statements and trade confirmation. Hold until you sell securities, then retain for additional 7 years.

Keep forever:

- Social Security card, birth certificate, et cetera.
- Estate planning documents.
- Marriage license or divorce decree.

Source: Consumer Reports Money Advisor, March 2010.

Teaching Kids about Money through Everyday Actions

Harli Palme, CFP® and CFA

As a working mother and busy stay-at-home dad with three small kids, there's not a lot of time for my husband and I to have protracted discussions with our kids about money. We want to teach our children how to work hard and spend wisely, but with so little time, I find myself having far fewer conversations with them about money than I thought I would before I had kids. I also thought I would never let them eat in the car, but you know how that goes.

There are a few key recurring opportunities that I encounter with my kids when it comes to money: spending choices, chores, earning money, and gifts.

Even babies can learn about the value of money.

Because my time is limited, I try to discuss spending choices in everyday conversation. When the kids ask why we can't have something or do something that is not in our budget, we explain that we have to make priorities about how we spend our money. For example, if we buy the extra large Pinky Pie My Little Pony instead of the small one, we'll have less in the budget for school clothes.

My daughter has asked us to pay her for chores around the house. When it comes to allowance, each family must decide what works best for them. We have decided not to pay allowances or to pay for chores. I explain that it is her job to help out in the house. As a family, we all have a duty to make the household run better. She puts the dishes in the dishwasher every night because she is part of the family.

I do, however, pay her to "babysit" my three year old sometimes when I have a household chore I have to tend to. I tell her that as the mom, it's my job to watch the baby, but she can earn some money by helping me. I distinguish between her household duty as a member of the family, and an extra job to help me out. In doing this, I hope she develops a strong work ethic, and the knowledge that in life, sometimes you just have to do work.

We also try to scale down Christmas and birthdays. (Grandparents: Don't sabotage this!) Once kids get accustomed to a roomful of presents, they adjust their expectations accordingly. I've tried very hard each year to keep it minimal. Unfortunately, that may be a losing battle, because grandparents tend to lavish more gifts than Santa Claus. What's Santa Claus to do?

As parents, we have to work hard and spend wisely, and we need to be vocal about it with our kids to help them understand the value of money.

When Things Are Going Well, Watch Out!

Cristy Freeman, AAMS®

The Great Recession was a real eye-opener. Many of us had not experienced such a dramatic economic pullback, with job losses and market declines that wiped out gains earned over many years. Suddenly, people faced the very real possibility of long-term unemployment. It was not unusual to hear stories about individuals who had been out of work for over a year or lost their homes because the mortgage payment was too high.

Of the many lessons we can take from this horrible experience, we see the value of savings. We all plan for a long, happy, prosperous life. Unfortunately, it rarely works that way. You back your car into a tree. Your kid (human or furry) gets sick, and you spend a small fortune on medical bills. You lose your job. The water heater stops working – on a Saturday. What would you do?

Even though I have spent over 23 years working at Parsec, it took far too long for me to create a successful savings plan. I had the misconception that I simply could not afford to accumulate the needed funds. After all, most people advise that you have anywhere from 3 to 6 months' worth of expenses set aside just for emergencies. The amount would be even higher if you added money for normal savings. It seemed impossible to save that much money.

You may have the same mindset, especially if you are just starting out in your career. It can be done, though, even on a shoestring budget. Sure, at the onset, you may not accumulate a massive sum of money. The key is to start saving *something*. Over time, the amount will grow. Let me explain how I created a savings plan.

Where is the money going?

Some gurus recommend that you document every single penny you spend. Then, after a certain period of time, you will know precisely how you spend your money. If that works for you, great! I just don't have that kind of discipline.

Before you cross the street, take my hand.

Life is what happens to you while you're busy making other plans.

John Lennon, "Beautiful Boy"

I prefer to divide expenses into discretionary and non-discretionary categories. The non-discretionary items are self-explanatory: rent or mortgage payment, property taxes, insurance, fixed debts (car, student loan), et cetera. These bills must be paid and are generally a set amount.

You might have more control over the discretionary items. While we all need to eat, there is a big difference between going out to a restaurant every night vs. cooking meals at home. What about entertainment? Do you have a subscription to cable, Hulu, NetFlix, et cetera, yet do not watch TV that much? Do you spend a lot on gifts for friends and family? Do you buy a hot beverage every day at the local coffee shop?

I find that discretionary expenses are the sneakiest. I can waste a lot of money without realizing it, especially if that expense recurs on a monthly basis.

Now that you have a good picture about where your money goes, could you reduce or eliminate certain discretionary items? Keep in mind that you should make reasonable cuts. If you completely eliminate all "luxuries," then you will be less likely to stick to your budget.

For example, I love mochas. At $4-$5 each, it is an expensive drink. I splurge on occasion and have one at the great coffee shop near the office. I can indulge a little bit without sacrificing savings, and I likely appreciate it more because I do not frequently buy the drink.

It is important to trim expenses *before* you have a money-draining event. You can have extra money to accomplish your goals now. If a financially devastating event occurs, you will not be faced with a dramatic reduction in spending. By living conservatively, you

can be more prepared for what life tosses your way and have extra savings for when things are going well.

What about credit card debt?

High interest on credit card debt can make it difficult to pay off the balance. I view credit cards as either an instrument whose balance I pay in full every month or a resource used only in emergencies. I never charge that $5 mocha to my credit card.

If you have credit card debt, stop adding to the balance unless it is a true emergency. In your new budget, you should include a fixed payment for the debt. Pay more than the minimum monthly amount due. Plan to eliminate this debt as soon as financially possible.

How can I save?

It is easy to say that you do not have money to spare. Even if you are just saving $5 each month, that is something. Do not be deterred! By saving even the tiniest amount, you are starting a good financial habit.

As you watch the balance grow, it will give you incentive to keep trying. Most importantly, you are not spending that money on something trivial. You are taking control.

I finally "got it together" by utilizing a great tool for savings: automatic debit. Banks and other financial institutions are happy to set up this service for you.

To begin, I calculated how much I should save for insurance and property taxes. Yes, these are technically non-discretionary expenses, but I found I was not saving for them. An automatic debit would help.

Then, as I saw the first debit was "doable," I decided to include a reasonable amount for car repairs, vet care, and other emergency expenses. Eventually, I was able to add money for general savings.

With each paycheck, the funds are automatically swept from my checking to my savings account. I never see the money, so I cannot spend it on $5 mochas.

By having the money in a separate account, I also have to think very carefully before I transfer the money to my checking account. Why am I doing it? Is it a true emergency, or have I mismanaged my money?

This plan made me more conscious about spending. I became particularly aware of those sneaky, recurring expenses. Did I really need a subscription for a service I rarely use? No! That's more money for savings, even if it is just $5.

So, can I eventually *use* the money I save?

Over the years, I have used my savings for everything from emergency vet care to unexpected home-ownership expenses. If I could not handle the expense with available funds in my checking account, then I tapped my savings account. I did not want to charge the item to a credit card.

That's one way to view your savings. It prevents you from placing yourself further in debt.

The Payoff

By establishing a savings plan, I could finally fund a Roth IRA account. I believed I needed basic savings before I could do this.

Now, I am not as stressed as I used to be whenever unexpected expenses pop up and also feel that I am saving for my future needs when I retire.

We are happy to help you establish a savings plan. Sometimes, people are embarrassed to tell their advisor how much they spend. Do not be that person. We cannot create an effective plan unless you are brutally honest. We will not judge you – we promise!

It's a new year. Why not make the commitment to do something that will give you greater peace of mind?

Do You Want to be Independently Wealthy?

Travis Boyer, CFP® and CFA

The goal of "independent wealth" is nearly universal in our society. We define this term as having built up a portfolio of investments from which you can spend over the course of a long retirement while limiting the risk of depleting your assets. With this preparation, you are not dependent on your earnings from work or government pensions to fund your spending needs in retirement. Instead, you can pay yourself your former salary from a sizable and well-diversified portfolio of investments for many years in retirement.

Reaching this goal is not easy, however, and it takes discipline over many years. It is easy to become absorbed and lost in multiple "top lists" of strategies and key things to do in order to position yourself toward financial success. The confusion can be especially difficult if you are early in your career and new to the investing world.

> *Save nothing. Have nothing.*
> *The math is real simple.*
>
> *-Bart Boyer*

Unfortunately, these difficulties can often lead to burnout and years of inaction, which is generally the least likely path toward a strong financial position. If you answered "yes" to the question in the title of this article, then either you need to take ownership of the work needed to educate yourself and implement a financial plan, or you need to hire a skilled financial advisor to manage the process for you.

The problem is that if you are early in your career, you likely don't have the assets available to merit hiring an advisor. Many early investors have to make their own decisions to build their assets and safeguard their situation. In addition to the many solid recommendations elsewhere in this newsletter to help you do just that, I propose the following three-step process to build your retirement assets over a long working career.

Establish an appropriate retirement savings rate

The first item we will highlight is a target retirement savings rate. A familiar quote from my dad on this subject summarizes this item well: "Save nothing. Have nothing. The math is real simple."

As simple as that sounds, it is true. If you don't save for retirement, then you won't be able to retire! When meeting with younger clients, or with children of existing clients, we like to review an illustration showing that in order to get to independent wealth, you need a 15% savings rate of your pre-tax income invested wisely over 36 years. If you don't start saving for retirement until you are 40, then you will need to be prepared to work until your mid-70s, save a higher amount of your income, or know that you will need to reduce your standard of living in retirement.

It is critical to remember that this savings rate is only focused on your retirement goals. All other goals of building an emergency reserve, paying down student loans, saving for a home purchase, saving for college, et cetera are outside of this analysis and will need separate savings strategies assigned to them. Often, people erroneously focus on only one goal at a time. Since retirement is the furthest into the future, it gets neglected most frequently.

You need to begin saving for retirement in your first year of employment in order to get into the habit of saving. While you might not be able to reach the 15% savings level immediately, it is critical to at least save some amount and work to increase your savings rate each year.

Select a retirement savings vehicle

Next, you must determine where to put these retirement savings. These savings are allocated for a goal far into the future for many of us – one that pays off over another 20-30 years past your retirement date. Because of this long time horizon, it is important to ensure that you do not incur ongoing taxes over your working career while managing these investments.

This avoidance of current taxation on your investments is available through employer-sponsored retirement plans. If your employer does not have a plan, there are various types of retirement accounts that you can fund to avoid current taxation on your savings. I will not go into detail on the numerous retirement accounts available (that's an entire newsletter in itself), but I encourage you to focus a significant majority of your retirement savings into these types of accounts.

Invest your savings

Once you have funded the appropriate type of retirement account, you need to get these savings invested and working for you. The 36-year savings illustration mentioned earlier assumes that your savings are able to receive a 10% annual investment return over that long time horizon. Conveniently, the compounded annual return on a portfolio of large US equities from 1926-2014, as measured by Ibbotson, is 10.1%. Younger investors need to accept the risk of a diversified portfolio of 100% equities over a long career in order to obtain the long-term return necessary to build their portfolio. As you approach retirement, your investment strategies could change. (See my article in the Q3 2015 newsletter for more information on this topic.)

Adding bonds into your portfolio will lower your risk, but you can also assume a roughly 0.50% lower annual return for every 10% allocation you move from stocks to bonds over long time periods. Over a long career, even a moderately lower return can result in a significantly lower ending dollar amount in your portfolio. For example, with a 10% return over 36 years, your initial $100 in savings would grow to $3,091.27. With a 9% return over 36 years for that same $100, your savings would grow to only $2,225.12.

To summarize this article in 5 words: Save; save wisely; invest wisely. When you have reached independent wealth in the years ahead, you will be glad you spent the time and diligence required to put yourself on the right path.

YOU'VE EARNED THIS.

You understand that working hard while spending and saving wisely has its rewards.

The wealth management team at Parsec Financial works closely with you to integrate your financial plans with your investments. We help you determine the best path for your assets to ensure they last your lifetime.

Since 1980, individuals and businesses alike have trusted our fee-only wealth management process. Through careful listening, diligent research, and hard work, Parsec Financial has been helping clients find and enjoy success. When you succeed, we succeed.

ParsecFinancial
WEALTH MANAGEMENT

6 Wall Street
P.O. Box 2324
Asheville, NC 28802

PRSRT STD
US POSTAGE
PAID
ASHEVILLE NC
PERMIT #575

Asheville 828.255.0271 § Charlotte 704.334.0894 § Southern Pines 910.684.8054
www.parsecfinancial.com