What is Financial Planning and How Does It Help?

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The major problem with the financial industry is a hodge podge of career descriptions and professional designations that many fail to understand.

What is financial planning and how does it help? To many people financial planning is merely an excuse to sell you a specific insurance or investment product. Sometimes it is. That's why it's important to distinguish oneself as a competent professional, all a matter of marketing and communication.

The most well recognized designation within the financial industry is that of a Certified Financial Planner© professional. Makes sense doesn't it? The CFP© Board created the designation as a means to define and distinguish professionals who meet specific education, experience, and ethics requirements which includes passing a comprehensive examination over the subject matter.

Anyone can enter the financial industry by passing introductory examinations conducted by FINRA (Financial Industry Regulatory Authority) and/or state insurance commissioners, much which depends upon the specific products the applicant wishes to sell. FINRA additionally allows the sale of specific securities registered with the Securities and Exchange Commission (SEC) including Series 6 (mutual funds, variable life insurance products) and Series 7 (additionally individual stocks, bonds, and options) investments. The difference with these registrations is that the applicant may only meet suitability standards for selling them and is most often compensated by commissions only whereas the CFP© designation requires the applicant to act in a fiduciary interest for all customers and is most often compensated on a fee basis to reduce inherent conflicts of interest. There are exceptions to these standards, but these are the general rules.

While anyone can call themselves a financial advisor, only a Certified Financial Planner© professional who meets the standards promulgated by the CFP© Board may advertise themselves as such. The CFP© Board has recently achieved a headcount of 100,000 CFP© professionals nationwide.

So what does a Certified Financial Planner© professional do? If you have ever asked yourself any financial question that leads to the outcome of "How do I maximize my net worth?" or "How do I maximize my financial freedom?", you have come to the right spot. Unfortunately, most people do not examine their situation in a holistic way, but in bits and pieces as random situations come up. However, the whole is greater than the sum of the parts, and synergy is built when specific strategies are implemented that synergize with one another.

A Certified Financial Planner© professional will work with you to understand your financial situation and goals in detail, then develop a comprehensive financial plan via a more disciplined and organized approach that better enables your overall progress. There are six key areas – cash flow and debt management, insurance, investment, income tax, retirement, and estate planning. Obviously, some aspects may be more or less important to different individuals based upon their priorities and stage of life. A CFP© professional can help you to prioritize those areas most important to you by examining the pros and cons of your situation versus the various financial strategies available.

Your financial plan is a written quantitative analysis which will assess your relative strengths and weaknesses with feasibility estimates for the likelihood of accomplishing your objectives. A comparison of outcomes will be made with various strategies that may better assist you.

Once thoroughly discussed and reviewed, implementation of your financial plan is inherently important. Your CFP© professional can be a great asset as he/she is most often able to recommend a combination of investments and/or insurance products and then supervise them on an ongoing basis.   Recommendations will often also include assets custodied elsewhere, such as company retirement plans, or recommendations that may also involve refinancing debt or a visit to your local estate attorney.   As mentioned, there are multiple parts to your financial plan, but all are dovetailed to your personal needs.

Consulting with a CFP© professional is no different than with any other trusted professional. Most times, a long-term working relationship is developed as it is important to assess your overall progress while adapting to personal circumstances as they change. Ongoing review and adjustments will be made over time, and so your financial plan is adaptive, not set in stone – it merely serves as a benchmark for what to do, what to focus on, and how to measure that progress.

How are CFP© professionals compensated? They may be compensated by a combination of fees and commissions depending upon the circumstances. However, the compensation models of most CFP© professionals are nearly entirely fee based, either from financial plans, assets under management (AUM), or a combination of both. Most CFP© professionals will charge an introductory planning fee either at a flat or hourly rate based on the work involved, but as the client allocates more investment assets for the CFP© professionals to manage (AUM), future planning fees are often waved. AUM and planning fees also typically cover phone calls, e-mails, follow-up meetings, etc.

A prevailing argument for some may be whether it is worth paying a CFP© professional ongoing fees or whether one is capable of their own financial planning. As a “do it yourselfer”, you may save yourself the equivalent of thousands of dollars annually – all you need to do is the math to figure that out. But is it worth the time, hassle, commitment, and possibility of errors and misjudgment? Later and repeatedly, I will address the most common mistakes investors make, and that includes people who do their own financial planning without the experience of more than 30 years working with approximately 100 high net worth clients. Research capabilities are ubiquitous but time consuming. Furthermore, you don’t know what you don’t know. Also, many resources will contradict one another. I have developed my overall practice philosophy based on extensive personal experience and empirical research. I can also say that many of my findings are not in agreement with common convention, not because I violate the rules, but because math does not lie. Furthermore, many common products and incentives are built around the premise of convenience, feelings, and fear of loss – you will pay a price for them in the way of less flexibility, lost opportunity, and/or higher expenses & taxes. Pick and choose your poison carefully.

As a professional fiduciary, my role is to work with you objectively. Honesty defines the most successful relationships.

Common Mistakes Investors Make

The main catalyst for achieving financial independence is investment planning. The most common mistake that investors make is not building upon a sound foundation of fundamentals.

Of course, building that foundation requires concrete – regular and meaningful contributions to a comprehensive investment plan. This is a struggle for some people who may not have large sources of income or who may struggle with expenses. Some lack discipline and spend more than they earn, no matter how much they make. Regardless, one must have their financial house in order before they are capable of investment. As mentioned beforehand, the first key pillar of financial planning is cash flow and debt management. It's all a matter of simple math, but you would be surprised how many flounder from the start! Find a career or pursuit that allows you to earn more while spending less – this is no financial secret.

On the other hand, there are those who welcome saving on a regular basis and who honor the laws of compound interest. The sooner you start, the longer your money has to grow. As your income increases, so should your savings at a rate that is commensurate with your lifestyle. You may buy a larger house or travel more often, but you should save more too. Saving more today will help you to maintain the same lifestyle well into your future, regardless of whether you work. Part of a financial plan should map out a trajectory of your current and future cash flow to measure how well those savings may be able to help reach your long-term financial goals.

As one gains more experience with investing, the easier it is to become misled by distractions. The plethora of financial media often convolutes the simplicity of common investment principles. Well known studies led by Roger Ibbotson have confirmed that 91.5% of a portfolio's return over time can be explained by the combination of asset categories that are used, whether with stocks, bonds, real estate, commodities, or currencies. Market timing and specific security selection account for only 7.5% of that outcome according to this well-known study.[1]

What does this suggest? You've heard it a thousand times before, and I'll say it again – the most important constituent of relative portfolio performance depends on diversification.

But why do so many people violate this fundamental principle? Because of financial media and the attendant attention deficit disorder associated with trading. We are led to believe there are experts on Wall Street who know better than us, who can predict the future, and therefore consistently beat the markets when the opposite has most often proven to be true!

Humans are subject to cognitive biases that can be quite misleading. Yes, there are traders and market timers who occasionally beat the market, some for longer periods than others, but these are the exceptions of survivorship bias that ignore the graveyard of traders who haven't fared so well, who have underperformed the averages, or who have left the industry altogether. These examples remain unspoken because they have not been glamorized by the media or anointed as "experts". Often, these "experts" will eventually fail themselves, and may yet still be referred to as "experts" based on their one-off successes.

Effective investing involves a balance of risk and return defined by an asset allocation that gives the highest probability of statistical success. Risk is defined by standard deviation, the variance of any return over time. Some asset categories, when combined, help to better offset risk as they will move differently from each other during various economic conditions. The same can be said for specific investments within categories of stocks, bonds, real estate, commodities, and currencies. These differences may be defined by specific industry, type, or geographic location globally.

Furthermore, specific investments within a category may have better or worse financial fundamentals. The value of any financial instrument is first defined by its demand, but the quality and consistency of that demand will be defined by the business strategies and operating performance of the underlying companies involved. Along the spectrum of investment risk, some investments such as commodities may be more speculative because their values are entirely dependent upon economic variables which may shift rapidly. Commodities and currencies are almost entirely macro dependent whereas the value of specific securities such as stocks and bonds will be equally if not more dependent upon the financial credentials of the issuer.

The devil lies in the details, and that's where statistical analysis comes in handy. Relative (risk adjusted) portfolio performance can be back tested via Monte Carlo simulations that randomly assign outcomes based on historical samples to determine the likelihood of success or failure, as well as worst case expected scenarios. This sounds like a mouthful for most people. This is where a CFP© professional comes in handy.

Alternatively, most people unwittingly invest based upon whim and emotion, at least to some degree, especially when confronted by some unexpected event that adversely affects financial markets, something they haven't witnessed before. How many such unexpected events have happened over the past 25 years – the .com bust, the tragedy of 9/11, the banking crisis of 2008, the ongoing currency crisis of the European Union throughout the early 2010s, the downgrade of United States debt, COVID, inflation, and tariff tantrums?

Yep, all these unexpected events happened. As of this writing, the S&P 500 index is up approximately 6.42% annually over the past 25 years without re-invested dividends, closer to an 8% total return including dividends. Longer term returns demonstrate a rolling average closer to 10% annually.[2]

Those who jumped in and jumped out during the interim tended to do so at the wrong times, selling at market lows while re-entering only when convinced the market was trending up, and at a much higher price than they had exited. For most people and most times, there is no better way to diminish returns than with market timing, when we are more strongly convinced by our arrogance rather than the probabilities.

Over the long term, the stock market is far less of a random walk, and there is a rationale for its outperformance compared to more conservative investments such as bonds or cash equivalents. The attached Ibbotson chart will help to demonstrate that trend. The reason that stocks are on top of the food chain is because their intrinsic value is based on earnings that must exceed their cost of capital as defined by prevailing interest rates. If not, these companies are not doing so well, and heads will roll as company performance falls behind - executives are roasted and/or these companies and their remnants are scooped up by the competition with more attractive buyouts. As such, there is little room for failure in the big leagues.

That's why investment quality is so important as defined by company fundamentals, a combination of unique competitive advantages that evidence themselves with consistently higher profitability, cash flow, and strong balance sheets. Stock selection matters, and one should strive to build a portfolio upon a foundation of companies that meet these fundamentals, balanced among different industries, market capitalizations, and geographic locations.

Technical analysis is a far weaker indicator as to when to buy or sell stocks, let alone which stocks to trade. Technical indicators can always be explained in retrospect as to what happened, but not when it will happen – there is no proven correlation that can predict random future events and how markets will interpret them from day to day. In my opinion, technical analysis is no different than reading tea leaves or financial astrology.

Once an allocation is determined, buy and sell investments that meet the criteria based on fundamentals first, economic trends second. Economic trends are far more fickle and so it is difficult to predict the turning point that will favor one asset class over another. Once again, this defines the difference between strategic allocation versus tactical adjustments, but it is always useful to balance investment approaches given prevailing and/or expected economic trends. But since the latter only contributes 7.5% to risk adjusted performance, tactical trades become a secondary emphasis after a solid foundation has already been established[1].

Trading options and futures can be another way to produce additional investment income or hedge against investment risk. One can also more effectively speculate with long (owned rather than sold) options/futures as they provide additional pricing leverage compared to the underlying investment. As with anything else, along with the pros come the cons. Options and futures are contracts to buy or sell specific investments at a certain price before a certain maturity date. The difference between an option and futures contract is that specific delivery must be made or taken for the futures contract at expiration. Regardless, the options/future contracts may be bought or sold before expiration to close any contract beforehand. If the contract you sold is assigned before expiration, you will have to honor it, often at an economic loss that offsets the income earned when the contract was written (sold). If long any option, it may become worthless if the price of the underlying position works against you. There is no free lunch with options and futures – they are complicated instruments! The least risky options strategy is commonly known as "writing covered calls" which involves selling call options on the stock you own. Doing so generates additional investment income, but limits upside appreciation of the underlying stock to the exercise price of the option if the option contract is assigned (exercised). This can be a good strategy for those seeking additional investment income during a declining or neutral market, but less well for those with a more aggressive risk tolerance who may be disappointed to cash out a stock prematurely and possibly to pay income taxes on any gain. On the other hand, a put option is insurance against any stock decline which allows the owner to exercise the contract if the stock declines at or below the exercise price. However, owning put options costs the option premium (payment) that will reduce returns if the stock price rises before expiration. Generally, options and futures contracts are speculative rather than foundational and may add more complications than benefits. This is the part of the 7.5%[1] that I typically avoid, especially since the payoff is most often indecisive.

Another common investment myth I encounter is the belief of reducing investment risk with age. Portfolio maintenance has nothing to do with age, but everything to do with the timing of withdrawals. By definition, investment portfolios are designed for the long-term. For example, if you have turned age 65 and are retired, you are likely to live another 15 years, perhaps longer. The withdrawals you require on a periodic basis are fractional – you won't spend the entire portfolio at once! The expectation for most retired people is to make their money last a lifetime – that requires a minimum specific return and risk level that often involves less conservative investments.

Sequence of investment returns is nearly as important as the timing of withdrawals. As discussed, investment returns are periodically random, and a large negative return for any prolonged period may accelerate portfolio depletion and thereby threaten the long-term livelihood of those assets. We address this issue with the Monte Carlo simulation which helps define not only mean expectations, but also best and worst case scenarios.

The whole point of investment planning in the eyes of a CFP© professional is to place those odds in your favor! As we wish to avoid investment depletion, we should equally avoid lost investment returns via an overly cautious approach. What you don't spend from your portfolio may become important to a spouse for financial support, or to children as an inheritance. That's what financial independence is all about, and often times that requires the suspension of fear in favor of reason.

Can you see what a more professional investment approach can do for you? More organization, more consistency, more discipline, yet with sufficient adaptability to make changes whenever necessary.

I would also like to touch upon cryptocurrency as an asset class. Some people view crypto as the best invention since sliced bread, some with greater skepticism. I'm with the latter category. Crypto was designed as a way to decentralize from fiat currencies, most which are inherently worthless backed only by a sovereign promise. The problem is that most countries are unable to repay their national debt, which includes their currencies. Crypto is really not that much different – it is not backed by anything tangible, and worth only what others are willing to pay for it. Despite that it has limited issuance, there are hundreds of crypto currencies to choose from, so does any of its value truly derive from scarcity? An exception is owed to stable coins backed by tangible assets of a given currency, such as U.S. government bonds. But what is the point? Why not just own U.S. government bonds or dollars themselves? Meanwhile, crypto has ironically gained more acceptance by submitting itself to government regulation and traditional networks, so it has lost most of its independence in search of higher valuations desired by investors.

So what is crypto exactly? Crypto is strictly a vehicle of speculation whose value is based on hopes, dreams, and rumors as it advances within the global marketplace. Popularity and independence are mutually exclusive, and the value of even the most popular cryptos such as Bitcoin can spin on a dime. That's why I don't use them for client portfolios, but if you wish to own some for giggles, I usually recommend no more than 5% of your portfolio that is in surplus of your financial goals.

Decisions Made at Retirement

How much money do you need to retire? There is no precise amount and that target depends upon the individual, their retirement date, intended lifestyle, and other sources of income.

Financial planning helps to establish reasonable targets based upon the clients' goals and resources. A well-developed financial plan can provide better clarity of your anticipated retirement date and how much money will be needed within certain tolerances of error. All this depends upon your actual retirement date, life expectancy, lifestyle during retirement as measured by expected spending with inflation, as well as other sources of income such as Social Security and pensions. Investment returns are another important variable. A Monte Carlo simulation can be developed from these inputs. The Monte Carlo simulation provides a range of asset values over time with investment returns being the dependent variable – it is a measure of best and worst case scenarios and provides a reasonable probability estimate of having sufficient money for the remainder of your lifespan.

The range of investment returns is calculated based on a historical simulation for a given allocation of assets. This assessment helps to define a reasonable blend of investment assets that will most likely provide sufficient returns with less risk via diversification. It also helps to establish parameters for the portfolio during your retirement years.

Otherwise, assumptions must be made for the independent variables which include expected expenses, inflation, and pension benefits – these are the inputs, but they also require significant decision making that will impact your retirement.   Decisions as to when to take Social Security, pensions, and in what format will also help to determine your retirement trajectory.

One of the most significant considerations involves when to begin taking Social Security benefits. Many people mistakenly believe they should delay Social Security for as long as possible to maximize their monthly income – this is very short-sighted thinking! People fail to consider the opportunity cost of waiting.   Although your monthly Social Security benefit may increase by 7-8% annually each year you wait to collect, you are also forfeiting significant payments during this time.   For instance, someone who may receive $3,500 per month in Social Security benefits at age 67 will only receive $2,450 per month beginning at age 62 but will sacrifice $147,000 of paid benefits in the meantime ($2,450 * 60 months).[3] That usually means the retiree will need to withdraw that much more in assets from their investment portfolio beforehand, and this is not the recipe for asset conservation. More importantly, no one knows how long they may live, and it will take decades to break even on the later payment! But that's how all pensions are calculated, based on actuarial estimates – there is no magic behind it.   The longer you wait to take your money, the more you gamble how much you will receive over a lifetime. A bird in the hand is worth two in the bush!

The only time it makes sense to delay Social Security benefits is if you continue to work prior to Normal Retirement Age (67 for most people).   Prior to Normal Retirement Age, there is a 50% reduction for any earned (employment) income that exceeds $23,400 (2025).[3] Therefore, it makes better sense to delay benefits under this situation.

Public and private pensions are also common for other state government employees and some private companies. Although most private companies no longer offer pensions, some still do. Regardless, there will be multiple pension options to select from once you terminate employment.

The amount of pension you receive is typically calculated based on the number of years you have vested and some function of your historical salary. Most pensions are designed to provide monthly income for you and a survivor (usually a spouse). A pension payout that covers two life expectancies will be lower than if paid simply as a lifetime benefit to the recipient – there are commensurate deductions depending upon what percentage the survivor receives and if there are any period certain guarantees.

Most monthly pension payments are made without period certain guarantees which means there is a substantial risk of forfeiture in the event of any premature death less than full life expectancy.   For instance, let's say your municipal pension will pay a lifetime benefit of $3,000 per month at age 65, and $2,000 per month to your survivor. If you and your survivor pass away prior to your expected longevity, you will receive fewer monthly payments than if at least one of you lived to a ripe old age.

As with Social Security benefits, it is best to begin taking pension benefits once you are no longer employed. It also often pays to begin taking your pension while still working if eligible.

Unlike with Social Security, other pensions do not reduce benefits for earned income, and you may take a reduced payment sooner but for more years and save the additional income. It always helps to do the math on that, as well as to evaluate the different survivor benefit options. Once again, this is where the guidance of a CFP© professional comes in immensely handy!

Even better, a lump sum distribution of your pension may provide more financial planning flexibility if you are eligible for it. Pensions are usually taxed when distributed, but the tax on a lump sum distribution can be avoided if rolled over into a Traditional IRA. Having the value of your pension transferred to your Traditional IRA gives you the most control over when to take monthly income, how much monthly income to take, and how to invest the proceeds in a manner that is most conducive to your financial goals. Doing so avoids the substantial risk of forfeiture involved with taking monthly pension benefits, and therefore, you maintain more control over the money, including the ability to pass any remaining amounts to other beneficiaries.

Likewise, most retirees have significant balances tied up in work related retirement plans such as 401K, 403B, and qualified deferred compensation (Section 415) – these amounts are also eligible for tax free rollover treatment once you terminate employment and may also be available if you have reached age 59&1/2 while still working. Rolling these plans into a Traditional IRA (or Roth IRA if appropriate) gives you fuller control over the money with how it may be invested with the ability to withdraw systematic monthly payments made to the bank account of your choice. As you may be aware, work-related plans usually have limited investment options, yet prudent investment management over your funds becomes increasingly important as you retire. Essentially, your IRA has multiple investment options, and when guided by a CFP© professional, you can devise an investment portfolio that is more highly customized for your personal situation as your asset allocation and required return dictate. There is also ongoing account supervision with discretionary trades your CFP© professional can make to keep your portfolio up to date. Typically, the investment management fee paid to a CFP© professional is not much greater than what you may already be paying through a work-related retirement plan – the difference is that you receive a higher level of customer service that is dovetailed to your personal situation without additional fees or phone calls made for monthly withdrawals.

Obviously, it helps to have an organized approach when you retire. That's what financial planning is all about!

Another common consideration is how to minimize income taxes on retirement plan distributions and your overall income throughout retirement. Most retirees are completely unfamiliar with their income tax bracket and distributions that may be required throughout retirement. The biggest impact toward your tax bracket will not only be how much money you spend, but where and how you draw the income – some sources of investment income are taxed more favorably than others. Asset accumulation prior to retirement will help to determine the scope of taxable income, but it also pays to evaluate where you stand at certain planning intervals to optimize your approach and to make strategic adjustments to optimize your situation.

The most common source of investment income during retirement is from accumulated funds often held in Traditional IRAs that have never been taxed. Beginning age 73 (as of 2025), owners of Traditional IRAs must begin to take Required Minimum Distributions as established by IRS actuarial tables based on account balances as of December 31st the year prior. Required Minimum Distributions may be more or less than you actually need for spending purposes – the IRS is simply looking to recapture taxes on income that has been deferred for many years and decades on a progressive basis as you age. For some people, Required Minimum Distributions may place the IRA owner in a higher tax bracket than prior years – this is the scenario we seek to avoid via proper recognition and planning in advance. Furthermore, it may be equally likely the Traditional IRA owner never spends his entire balance, and so next generation beneficiaries may inherit the proceeds distributable in higher income tax brackets over a period no greater than 10 years.

A well-trained CFP© professional should be able to detect such a trend well in advance and recommend alternative strategies to recognize more income sooner, potentially at lower income tax brackets rather than deferring withdrawals to age 73. Many retirees are interested in performing Roth IRA conversions for this purpose. A Roth IRA conversion allows the owner of a Traditional IRA to convert a portion of his balance to a Roth IRA for the purpose of recognizing income taxes. Five years after a Roth IRA Conversion (and after age 59& ½), the converted balance is completely available to withdraw income tax free! Furthermore, there are no Required Minimum Distributions on Roth IRAs until inherited by a non-spousal beneficiary. This strategy works well if the income taxes paid in advance are performed in a lower income tax bracket than deferring withdrawals into the future – careful calculations should be made! But there are two potentially insidious consequences – first, Medicare premium payments may increase at higher levels of income, so these increases should equally be considered along with differences of income tax bracket. Second, funds to pay for income tax on the Roth IRA conversion must be derived from funds elsewhere or the income tax withholdings on the Roth IRA conversion will be considered taxable income with a smaller amount converted. Most people do not have unlimited cash available to pay for Roth IRA conversions, and so that may force liquidation from other taxable assets subject to capital gains, which also has an incremental effect on the total income taxes paid.

Many people may consider Roth IRA conversions in total ignorance of these pitfalls simply to get the income taxes done and paid for, so they don't have to worry about it any longer. This is not a very astute way to handle your income tax and overall expense management. Some people, even knowing these limitations, will trade their first-born child simply to eliminate the anxiety involved. This makes absolutely no sense if your total income taxes and Medicare payments exceed what you would have simply deferred over the years. What matters is the total cost born upon withdrawal. It pays to measure this impact strategically – hire a CFP© professional!

If you can maximize lower income tax brackets, it may make better sense to make additional withdrawals prior to RMD, withhold the income taxes, and then redirect the remaining proceeds to your taxable brokerage account. Why would anyone add to a taxable account? If your expectation is to hold the money indefinitely without expected withdrawals, you can invest the proceeds into individual stocks, ETFs, etc. without paying income taxes on appreciation! Even so, qualified dividends and long-term capital gains are taxed at lower rates than ordinary income if you do decide to spend the money or reposition assets. But if you use a buy and hold strategy, the unspent appreciation will be inherited at a stepped up basis with capital gains taxes forgiven upon the transfer of assets to your beneficiary – this is really no different than for a Roth IRA, and so there is a similar effect available without forfeiting appreciating assets in the meantime to pay income taxes upon conversion.

So likewise, it pays to consider how to accumulate money in preparation for your retirement. Work related retirement plans are the most common method because they feature convenient payroll deductions often with matching contributions paid by your employer. So it behooves anyone to contribute at least the amount which earns the maximum company matching contribution. Many plans offer Traditional (pre-tax) vs. Roth Contributions. Once again, the prevailing factors are expectations for income tax bracket and when funds will be needed. Those with high earned income with no perceived need for funds prior to age 59&1/2 will favor pre-tax contributions that maximize current income tax deductions, although the funds will be tied up with penalties that often apply before age 59&1/2, while those who may be beginning their careers in lower income tax brackets with possible need for the money prior to age 59&1/2 may prefer Roth IRA contributions for increased liquidity and more favorable tax benefits upon withdrawal at a later date.

Premature withdrawal penalties on Roth 401K/403B distributions still apply to those under age 59&/12, but there is an allocation of the withdrawal between non-taxable and taxable amounts. However, the major premise of those making Roth contributions is that they will be in a **higher income tax bracket** when the money is withdrawn. This is rarely the case because of the progressive nature of the income tax. Taxable income is usually highest while you are working.

Those who are very successful at saving money often find themselves maxing out their work-related retirement plans, and if most of these contributions are made on a Traditional/pre-tax basis, they may encounter significant tax issues upon withdrawal.

Some taxpayers may also be eligible to make Roth IRA contributions (not to be confused with Roth retirement plan contributions) as a way to alleviate taxable distributions upon retirement, but Roth IRA contributions are subject to income limitations ($150,000 adjusted gross income – single, $236,000 adjusted gross income – married filing jointly) that preclude some from participation. There are also “backdoor Roth IRA contributions” that elude these limits by making an after-tax IRA contribution, then converting the balance to a Roth IRA, but converting the after-tax IRA may trigger income taxes based on other IRA balances.

Yes, it’s that complicated.

Whenever possible, I recommend that high cash flow clients accumulate additional savings in taxable brokerage accounts that provide advantages such as lower income tax on qualified dividends and long-term capital gains while providing the highest degree of withdrawal flexibility available for intermediate expenses, including college educations. These amounts may be funded from Employee Stock Purchase Plans, Restricted Stock, and/or non-qualified stock options to diversify work-related holdings while taking advantage of purchase discounts that are provided. Please also note the step up of basis available to all beneficiaries that waves capital gains taxes on appreciation earned by the prior account holder.

As with most things, it's all about awareness and balance. As a CFP© professional, I can help you take a look into the future and help you plan more carefully to avoid any costly mistakes!

Paying for College Expenses

Paying for college expenses is another significant item considered by many families. You want the best for your child, but every dollar you assist with college expenses is that much less toward your own financial independence. Obviously, there is a monetary trade-off. These expenses can also be measured within the Monte Carlo simulation, a matter of resources versus lifetime expenses.

My job isn't to make value judgments for your family, but the value of a college education has greatly diminished over the years while costs have skyrocketed. The best payoffs for a college education include the studies of STEM, medicine, law, accounting, and mathematics. I would also include finance in this category but it depends more upon the level of math and marketing abilities involved. The $64,000 dollar question is what the return on investment will be – will the assumption of college expenses result in a greater lifetime income for the student, and by how much compared with other career choices? Are you willing to defer retirement for five years or at a lower standard of living to help pay for college expenses? Or would you prefer to have your child/children assume some of the responsibility? These are all important considerations – a detailed financial plan can help you place these variables into better perspective, but it certainly can't make these judgements for you. However, choices do have consequences.

I always thought it an excellent exercise for the student to give parents a presentation about the merits of their education objectives and career goals, like any other entrepreneur who seeks investment capital. This provides the student with better insight to make an informed decision while convincing parents of their dedication and intent. Many of the career trajectories I suggested really don't require that much convincing, but it behooves the parent beyond simply indulging their children with what is commonly known as "the college experience". And everyone knows what that more often entails – it often has little to do with the ABCs of career mastery.

Paying for college is a substantial investment that should be taken seriously in context with everything else.

That said, how to pay for college? My first piece of advice is to avoid the traps of prepaid college plans such as 529s. Please keep in mind the primary objective of financial planning is to maximize your net worth and financial independence. The 529 plan is a great marketing tool that appeals to the parental instinct of placing funds into a secure envelope that will be available for college expenses when needed, but it also places funds into a restrictive box that isn't much good for anything else! The Federal (and State) governments dangle the carrot of tax-free distributions for qualified education expenses, but no one knows in advance how much might be spent for these purposes, and if not, income taxes plus penalties apply on appreciation against these withdrawals.

Unspent amounts may be transferred to other beneficiaries, or if funds remain unspent, the beneficiary may convert up to $35,000 of the unused account balance to a Roth IRA if the account has been open for at least fifteen years, subject to annual contribution and earned income limitations for the beneficiary. How many hoops does one have to jump through to qualify for their money appropriately, and how much might otherwise be misspent? Did you really want to give money to your child not knowing how much they might need in advance while your retirement planning needs remain unmet?

Instead, you should generally be looking to save money where it is most advantageous to you! The first priority is often work-related retirement plans that provide company matching and pre-tax contributions. Most people really don't understand how much more advantageous this may be given their current income tax bracket and free contributions from their employer. Do the math! Here is an example – if an individual is within the 22% Federal Income tax bracket, they will save the corresponding percentage in Federal (and applicable State) income taxes, along with the company match. That means less income taxes will be withheld from your paycheck to offset your retirement plan contribution! As I mentioned before, a bird in the hand is worth two in the bush!

When it comes time to pay for college, you may reduce your retirement plan contributions to the maximum annual matching rate – that will provide some of the cash flow you will need since there will be more dollars available from your paycheck. You may also redeem funds from company stock purchase plans, restricted stock, and stock options. If you have also been setting aside money beyond your company retirement plans, these supplemental funds may be available on an income tax free basis from Roth IRA contributions, or at long term capital gains rates from a taxable brokerage portfolio. Qualified dividends and long-term capital gains are taxed at lower rates than ordinary income, and long-term capital gains are also offset by long term and short-term capital losses. Positions are frequently traded within brokerage portfolios as conditions change, including whether you need additional funds for college expenses.

The difference is that you have far greater flexibility with free cash flow, from prior year Roth IRA contributions, and from brokerage account portfolios than you will ever have from a 529 plan. Besides, you get to keep the unspent money without paying additional income tax penalties!

Another source of funding includes loans, whether student loans or personal borrowing such as from a home equity line of credit or refinanced mortgage. Student loans, both public and private, may help to hold your children at least partially responsible for their own expenses and efforts. Public student loans are issued by the Federal Government, usually at lower interest rates, but may have borrowing caps. Parents may also apply for Plus Student Loans on behalf of their children.

Borrowing against home equity is another tenable option. Unfortunately, interest rates are much higher at the time of this writing than they were only a few years ago, and the interest paid on any mortgage not attributable to home purchase or improvements is non-deductible.

However, the laws of compounding dictate that at any given interest rate, the interest paid on a declining loan balance is far less than the interest gained on an accumulating balance. The difference represents an opportunity cost lost on amounts redeemed versus borrowed, not to mention the potential income taxes paid upon redemption. Few people realize this. Debt is not a sin, it's a tool. The key is to do the math to compare – that's part of what the financial plan does!

A combination of these strategies is usually best for paying college expenses, customized to the needs and personal financial situation of the client. The key is to find the best solution for meeting client goals on a comprehensive basis.

What About Real Estate?

Real estate is a viable asset class. The question is, do you want to own an asset or a liability?

An asset puts money in your pocket while a liability takes money out of your pocket.

By this definition, your home is merely a possession, not an asset. Maintenance costs include real estate taxes, homeowner's insurance, repairs, landscaping, etc.

While you may be building equity through appreciation and by paying off your mortgage, you can't spend your house. You can't rip a few shingles off your roof to buy groceries, but you can buy and sell financial investments at the snap of a finger to pay for anything you want.

The best time to pay off a mortgage is no sooner than obliged. Many mortgages are currently at lower interest rates than what can be expected from a diversified portfolio of financial investments over the same period, or if not, you are no worse off paying a comparable interest rate on a declining mortgage balance.

Paying your mortgage sooner than necessary is making you poorer – stop doing this! You get no bonus points by doing so! This is one of the worst uses of money! Furthermore, the mortgage interest paid on your original purchase and on home improvements may be tax deductible if you are able to itemize. As of June 2025, there is currently a bill going through Congress that would raise the deductibility limit of state and local income taxes to $40,000 from $10,000, and so when in combination with the mortgage interest you pay, you may reclaim both deductions.

Obviously, there is a lot of personal satisfaction involved by owning your own property if you are willing to take responsibility for doing so. However, those who are younger, without families, and more likely to make lifestyle and/or residence changes on a more frequent basis are far less encumbered by renting.

Many people are interested in buying vacation homes as "an investment". Once again, this often boils down more to personal satisfaction than it does wealth accumulation. Now you are responsible for maintaining two properties! Sure, you may rent out your vacation home to subsidize these expenses, but you can't use your vacation home while you are renting it – these are at cross purposes!

For most people, rental properties are not much better than break even at best. First, you have to rely upon a steady stream of tenants or permanent occupancy, and combined with ongoing maintenance costs and responsibilities, you may have some headaches on your hands, at least occasionally.

Then there are those who are fonder of family memories and connections with friends during summer cookouts and outings. Fine, but there is a substantial cost for this level of aristocracy. You could just as easily travel to different locations and various Airbnbs while enjoying the increased freedom and variety without the ongoing responsibilities and costs of personal ownership.

Some people enjoy the more "hands on" approach associated with real estate, but financial freedom only comes with commensurate work and accumulation of properties that generate sufficient net rental income. Still, your real estate portfolio may not generate a cap rate much greater than the dividends and interest on an investment portfolio of stocks and bonds. The difference is that your investment portfolio is far more liquid and does not require the maintenance of leaky faucets, roofs, clogged toilets, or uncooperative/transient tenants.

Furthermore, you can own real estate as a real estate investment trust (REIT) which can be privately owned or publicly traded as any other financial instrument. The difference with a REIT is that you are not responsible for management of the property.

Estate Planning – The Finishing Touches

While most people are focused on wealth accumulation, wealth maintenance is equally important and becomes a more prominent concern as one ages. Estate planning deals with this subject in detail and encompasses many strategies ranging from various health insurance to complex wills and trusts. Much of this work is executed by an attorney, and while I am not licensed to practice law, I can give you much practical introductory advice based upon my experience working with clients. I can also work with you and your attorney to supervise the process and deal with any adjustments that are made to your financial situation.

One of the risks clients face while alive that far exceeds the stock market or their money itself is changes to personal health. Upon retirement, most clients qualify either for Medicare or continuing coverage provided through their former state employer. Most commonly, those with at least 40 quarters vested with Social Security qualify for Medicare benefits beginning at age 65 which consists of three major parts – Part A covers inpatient hospital care and limited coverage for home health care, assisted living, or nursing care over the first 100 days. Part B is a paid for benefits that cover additional accessories such as ambulance services, limited subscriptions, and various medical equipment. Medicare Advantage is additional private health insurance that covers the remainder of most medical prescriptions (subject to deductibles) along with vision and dental. The sum of these parts defines the health care coverage for most retirees.

Unfortunately, except for the first 100 days, none of these programs will provide for continuing care outside of a hospital. This might include home health care, assisted living, or nursing care for chronic illnesses. Without the advantage of traditional health insurance, these forms of care may become quite expensive, although rates may vary from state to state. For example, in the state of Massachusetts, home health care may average between $40 - $70 per hour depending upon the level of care required. Assisted living may offer a more permanent solution for those with limited but ongoing care needs where services are provided at a monthly rate. Unfortunately, some individuals may require supervised care 24 hours per day, in which case nursing home rates may approach $500 per day (that's $15,000 per month).[4]

So it's very easy to see how a retired couple may be in reasonably good financial shape one day only to become burdened by the onset of such costs. This is why I encourage people to maximize their net worth by following sound financial planning principles over the course of their lifetimes – you can never have too much money because you never know what the future holds. Regardless, most couples will eventually be challenged by these costs as 70% or more of those who reach age 65 will require some type of long-term care eventually[5] – we just don't know whom, for how long, or how much. The cost of any long-term illness or disability not covered by Medicare or traditional health insurance can become quite devastating for those with modest, but even well to do means.

Historically, long-term care insurance has been offered as a solution to cover these specific costs depending upon the needs and level of care required. The premise is the same as any other insurance – you pay premiums in advance so that if a claim is made, the insurance company can pay the claim and reduce or eliminate the risk of capital depletion for you. Ironically, those who need this type of coverage the most are the ones less likely to afford it. If you look at long-term care insurance as part of your budgetary expenses, it will make most people somewhat angry to pay it, especially with the knowledge that a future claim may never be paid if the insured remains healthy throughout their lifetime. But that's the roll of the dice! One should evaluate the premium paid versus the possibility of future long term care expenses, and how long it would take to recover the premiums through any future claim – that's the objective way to evaluate whether any long-term care insurance policy may be useful for you. Also, your advisor will be sympathetic to this dilemma and find the most effective way for you to afford the premiums if it makes sense and does not interfere with your overall retirement goals.

But there are many potential problems associated with long-term care insurance. First, some applicants may not be able to qualify for affordable rates or even any coverage at all! Secondly, those who do medically qualify may find their premiums increase with age. While most long-term care insurance policies are issued at a level premium, premium increases may apply for the entire class of insureds based on actuarial results as approved by any state insurance commissioner. Coincidentally, many companies who have offered long term care insurance have not been very accurate while setting their original premiums, and many policies have had a steady history of premium increases after issue. Because the actuarial estimates have been so unpredictable, many companies offering private long term care insurance no longer do! As it turns out, the more people who bought long term care insurance, the greater percentage of claims have been made. This experience has not made the long-term care insurance industry nearly so profitable, and so many companies have withdrawn from the market. There are much fewer carriers who offer private coverage today, and newly issued policies have become increasingly expensive over the years given any applicant's age and underwriting status.

If a couple encounter the situation where one spouse requires care, the financial assets of both spouses are at risk! That means the healthy spouse may be left with fewer resources to live upon given the potential cost and duration of care. While the assets of both spouses are at risk, only the income of the ill spouse is at risk – that stipulation is the mechanism which allows an ill spouse requiring extensive long-term care to potentially qualify for Medicaid. Unlike Medicare, Medicaid is the federally funded, state administered program which allows an applicant to qualify for government assistance based on what can be defined as poverty status. A couple with reasonable financial assets will not likely enable the ill spouse to qualify for Medicaid unless those assets are annuitized (converted to a guaranteed lifetime payment stream) for the healthy spouse. Although financial assets above a certain limit will be compromised, annuitizing the remainder in the name of the healthy spouse will enable that person a better chance to maintain his or her lifestyle in the event of the other's spouses care – the assets are gone, but substituted by income that ends with the life of the annuitant.

A primary residence may also be maintained if there is a healthy spouse who requires it, or even with any single Medicaid applicant who elects the option "to return home" if care is no longer required. However, any liens representing payments by Medicaid may be assessed against the applicant's and spouse's final estate.

Ethically, though fully legal (that's one reason to visit an elder law attorney), I have a hard time condoning this strategy since it displaces responsibility to Medicaid, ultimately the Federal government that is already running huge fiscal deficits partly attributable to this phenomenon.

As free and responsible individuals, all of us should strive to become as financially independent and resilient as possible with the ability to pull our own weight regardless what happens. It is not the job of the government to take care of you! That's what helps to create a welfare state! I am morally opposed to this.

That's why I fully encourage clients to accumulate as much as possible toward their own financial independence, or to use private long term care insurance for assistance assuming it is available and affordable for you. However, it's best to know that you can self-insure if necessary.

The more elaborate part of estate planning may involve establishing a set of complex wills or trusts designed to meet specific family requirements or needs. In the case of planning for long term care, sometimes it may be useful to consider irrevocable Medicaid trusts for the purpose of protecting certain assets, but there are caveats to understand – first, that once the assets are assigned to an irrevocable trust, you have permanently given them away and no longer have the ability to spend or control them. A trustee is nominated who is responsible for administering the trust and providing income to the donor that allows for the "maintenance of health, care, and well-being", but these amounts are limited to the interest and dividends that are generated, and no greater than 5% of the principal annually. Secondly, those who forfeit these assets will not qualify for Medicaid despite giving them away until five years have fully passed. Thirdly, any qualified retirement plans and IRAs donated to the trust must be taxed first, which can be quite expensive depending upon the size of those balances and what income tax bracket you fall under. Another income tax implication is that any step up of cost basis is waived upon the donor's death, which means that beneficiaries will pay capital gains taxes against amounts that are liquidated. Most importantly though, most people need their money and just can't afford to whimsically give it away.

A far more common use of trusts for Medicaid planning includes the life-estate for real estate property owned, usually a primary residence. The life estate enables the occupant to maintain a lifetime interest in their property based upon their life expectancy, so the amount of the gift is based only upon the remainderman (that's the amount which is required to meet the five-year period), and the life estate portion ends upon the life of the donor.

There are other reasons for establishing trusts other than avoiding nursing home costs. The primary feature of any trust (unlike any will) is that any assets placed into a trust avoid the time and costs of probate. Far more common are revocable living trusts which allow much greater flexibility to the donor while alive who serves as the initial trustee. Any donor who serves as trustee has never officially forfeited their assets, and therefore, there are no restrictions upon them. The assets are still considered as owned by the donor with the same Tax ID# used as their own Social Security number. Upon their death, a successor trustee named within the trust is empowered to administer those assets, and at that point an EIN # (entity Tax ID #) is used to administer the trust assets.

In addition to avoiding probate, the trust allows the original trustee to dictate the term of disbursements to beneficiaries upon his/her death as administered by the successor trustee. This type of terminology can specify the terms under which beneficiaries may receive their share of distributions and under what conditions, including age and/or spendthrift clauses. Since the trust is a private document, the funds are also protected from the beneficiaries' creditors and spouses in the event of lawsuit and divorce until distributed by the successor trustee. Terms such as these can allow the original trustee more confidence with the protection of assets and responsible use of funds.

Unlike with irrevocable trusts, the donor does not lose the step up of basis provision in the event of their death – that's because the assets haven't been given away while the donor is still living. As a testamentary gift, the step up of basis still applies. However, it behooves the donor avoid gifting qualified assets including company retirement plans and/or IRAs into ANY TRUST since it may trigger immediate income taxation over a period not to exceed five years. Otherwise, retirement plans and IRAs may be inherited by next- generation beneficiaries that can be distributed over a period not exceeding ten years. The longer deferral period is very important to avoid the extra taxation associated with large distributions at potentially higher income tax brackets. An exception may apply to retirement plan trusts that are specifically worded to allocate distributions among distinct beneficiaries.

Another reason to establish trusts is to avoid potential estate taxation. This is much easier to do since 2017 with the Federal Tax Cuts and Job Act which brought the Unified Credit exemption (tax free estate transfer amount) to $13.99 million as of 2025. Furthermore, the executor of the surviving spouse has the option to elect deferral of the Unified Credit to the surviving spouse. Most states do not have an estate tax at all. Of course, Massachusetts does! The estate tax free exemption for Massachusetts, including lifetime gifts, is only $2 million. Fortunately, estate tax rates for Massachusetts do not exceed 16% vs.40% Federal. However, a $2 million estate is not so hard to achieve for many people. In that case, dividing assets equally between spouses and establishing revocable living trusts for each can help alleviate this impact. At the death of the first spouse, the assets in their trust become irrevocable and the first $2 million passes estate tax free. The surviving spouse may take distributions of income and up to 5% principal annually, with unlimited access to the assets within their own trust. The future appreciation of the first spouse's assets also avoids further estate taxation.

These are several examples of why to visit an elder law attorney to develop an effective and error free estate plan. There are many complexities involved. I am not a licensed attorney and cannot draft or recommend these documents for you, though I am familiar with them as I have encouraged my clients to implement their overall financial plan. I can serve as a liaison with your estate planning specialist to help execute these crucial steps and to provide additional planning perspective and clarification as necessary.

Other important provisions include durable powers of attorney which nominate a trusted individual to manage your financial affairs in the event of any incapacity and health care proxies to make important health care decisions on your behalf if unable. Conflicts of interest prevent me from serving as your trustee, executor, durable power of attorney, etc., but it's always best to nominate those who are competent, capable, and will serve your best interests. Likewise, I will work equally with them as I would you as the time may arise, and I will have copies of all the necessary paperwork on file to do so.

Conclusion

This brochure is part of a public awareness campaign to help distinguish the credentials and expertise required for a Certified Financial Planner© professional, that we act as fiduciaries to provide holistic, well-rounded, and customized advice that is oriented toward the specific goals, concerns, and financial situation of each client. We serve as an ongoing resource as your financial situation evolves and help to make necessary adjustments. The basis of our work is fee- based financial planning, a process that evaluates six key areas including client cash flow, insurance protection, investment planning, income tax planning, retirement, and estate planning. The emphasis of any plan depends upon the specific circumstances of each client, and as fiduciaries, we point out where you stand relative to these areas, your strengths and weaknesses, as well as areas for improvement.

Your Certified Financial Planner© professional is also in the best position to help supervise the implementation of your plan which includes specific recommendations along with products and services that are conducive toward these goals. Your Certified Financial Planner© professional may be additionally compensated for various products and services implemented within your financial plan, most often on a fee basis for wealth management services and/or commissions for insurance products such as long-term care coverage. We will also address those areas outside our immediate management which may include work-related retirement plans, along with income tax and estate planning, especially as it relates to your investments. Meanwhile, it is often best to co-ordinate our work with your accountant and/or attorney as it may apply. Working with a team of professionals becomes increasingly important the more complex your financial situation becomes.

Your Certified Financial Planner© professional is your financial quarterback and family CFO. We strive to develop long-term working relationships akin to what you have with your family doctor. With ongoing contact and review, we may serve as your financial confidant to address whatever the future brings.

Most importantly, your Certified Financial Planner© professional can help you to avoid common mistakes often associated with misinformation or a lack of context as to how certain financial issues may affect you. Some issues you may not be familiar with, and we can bring these to your attention. We bring an objective approach to the table absent of emotional thinking and bias, but with the same level of compassion we would have for ourselves or a family member – that's what a fiduciary does; we place your needs and interest first.

This is why you may want to consider working more closely with a Certified Financial Planner© professional who may provide a more thoughtful ongoing approach to address your concerns. My contact information appears below – please feel free to follow up with any specific questions you may have or to schedule an introductory consultation to determine how I may help.

This material is for informational purposes only. The opinions expressed in this commentary are those of the author and may not necessarily reflect those held by Kestra Investment Services, LLC or Kestra Advisory Services, LLC. It represents an assessment of general market conditions, trends, and topics, and is not intended to be a forecast of future events, or a guarantee of future results. It is not guaranteed by any entity for accuracy, does not purport to be complete. Be sure to consult with a qualified tax professional prior to making decisions that may affect your tax situation.

The strategies discussed do not assure a gain or prevent a loss in a declining market. There is no guarantee that any investment strategy will be successful or will achieve their stated investment objective.

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Footnotes:

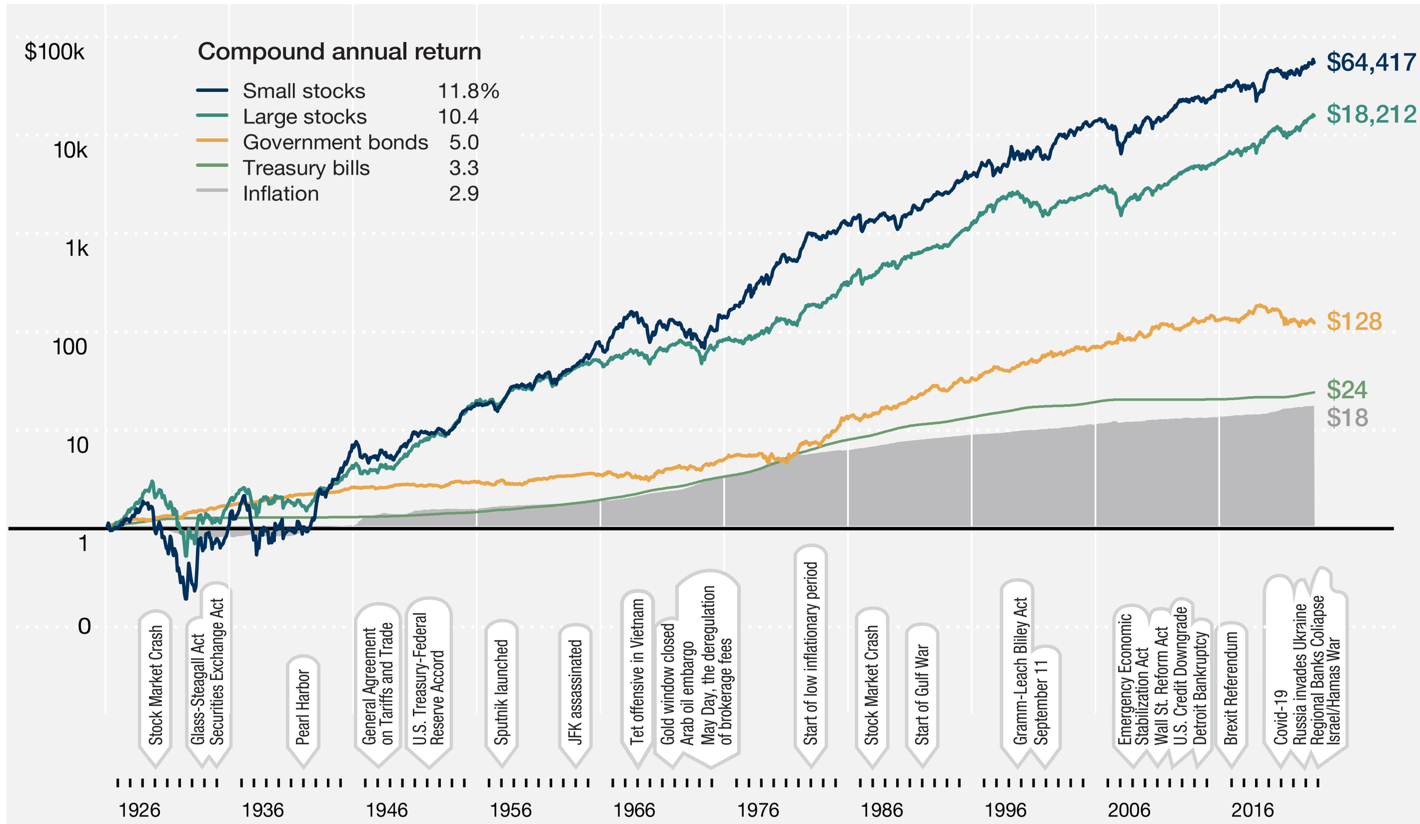
1. "Setting the Record Straight on Asset Allocation" by David Larrabee, CFA, February 16th 2012.
2. Yahoo Finance charts, also Ibbotson® SBBI® - Stocks, Bonds, Bills, and Inflation 1926-2024.
3. https://www.ssa.gov/
4. https://www.ltcinsuranceconsultants.com/long-term-care-ins-massachusetts/
5. https://www.aplaceformom.com/senior-living-data/articles/long-term-care-statistics?msockid=07e829ea48066fd72aea3fec49a16e5d

Ibbotson® SBBI®

Stocks, Bonds, Bills, and Inflation 1926–2024

Why invest?

If you have financial goals, such as a secure retirement or paying for a college education, investing makes sense. As you can see here in the growth of $1 over the past 99 years, small-cap stocks, large-cap stocks, government bonds, and Treasury bills should all have a place in a properly allocated long-term investment strategy.



Past performance is no guarantee of future results.

Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

NEW YORK LIFE INVESTMENTS

Ibbotson® SBBI® 1926–2024

A 99-year examination of past capital market returns provides historical insight into the performance characteristics of various asset classes. This graph illustrates the hypothetical growth of inflation and a $1 investment in four traditional asset classes from Jan. 1, 1926, through Dec. 31, 2024.

Small and large stocks have provided the highest returns and largest increases in wealth over the past 99 years. As illustrated in the image, fixed-income investments provided only a fraction of the growth provided by stocks. However, the higher returns achieved by stocks are associated with much greater risk, which can be identified by the volatility or fluctuation of the graph lines.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. Furthermore, small stocks are more volatile than large stocks, are subject to significant price fluctuations and business risks, and are thinly traded.

About the Data

Small stocks in this example are represented by the Ibbotson Small Company Stock Index. Large stocks are represented by the Ibbotson Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond through 2023 and Morningstar US 10+ Year Treasury Bonds thereafter, Treasury bills by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. Underlying data is from the Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook, by Roger G. Ibbotson and Rex Sinquefield, updated annually. An investment cannot be made directly in an index.

Past performance is no guarantee of future results.

Note: This is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes or transaction costs. The average return represents a compound annual return. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest when held to maturity. Bonds in a portfolio are typically intended to provide income and/or diversification. U.S. Government bonds may be exempt from state and local taxes, and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government. Stocks are not guaranteed and have been more volatile than the other asset classes. Large company stocks provide ownership in corporations that intend to provide growth and/or current income. Small company stocks provide ownership in corporations that intend to seek high levels of growth. Small company stocks are more volatile than large company stocks, are subject to significant price fluctuations and business risks, and are thinly traded. Capital gains and dividends may be taxed in the year received. Underlying data is from the *Stocks, Bonds, Bills, and Inflation® (SBBI®) Yearbook* by Roger G. Ibbotson and Rex Sinquefield, updated annually. An investment cannot be made directly into an index. Past performance is no guarantee of future results.

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