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Searcy™ FINANCIAL

Wealth Matters Newsletter

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Do You Understand Your Emotions About Money?

If you've ever felt a rush of excitement at making a big purchase or experienced feelings of shame at making a financial mistake, you know that our relationship with money isn't completely rational. For most people, money comes with a lot of emotional and psychological baggage that affects the decisions we make.

Psychologists call these emotions "money scripts" and have found that these unconscious beliefs can drive many positive and negative financial behaviors.

Many of our money scripts come from our families and the way our parents handled and discussed their finances. It's one of the reasons why we encourage our clients to talk to their kids about money and teach them good financial skills early in life. As adults, it's also our responsibility to explore and understand our own feelings about money and how they drive our behavior.

As financial professionals, we know that money is a very emotional subject. We have seen many instances where emotions drive negative actions.

- **Emotional investing decisions** can wreak havoc on long-term performance by leading to overconfidence when markets rally and panic when markets decline.
- **Anxiety about the unknown** can leave people feeling paralyzed with worry and unable to make financial decisions or prepare for the future.
- **Shame and avoidance** can lead to inaction and push people into ignoring critical financial tasks that make them uncomfortable.
- **Emotional spending** can give people a brief feeling of euphoria or distraction but cripple their savings strategies if left unchecked.

What Can You Do?
The first step to unraveling your psychological relationship with money is to realize that you're in good company;

everyone has positive and negative emotions related to money that can lead them to make not-so-savvy decisions.

One way to help you explore your internal money scripts is by imagining how you feel in certain common financial scenarios:

- How do you feel about earning money?
- What does money mean to you?
- How does buying something make you feel?
- How does saving for the future make you feel?
- How do budgeting and tracking expenses make you feel?
- How do you feel when markets are up?
- How do you feel when markets are down or volatile?
- How do you feel about meeting with a financial professional?
- How do you feel about your financial future?

If you discover that you have strong positive or negative reactions to these questions, it's a good idea to take note of those feelings and explore them in more depth – perhaps with the help of a professional. While some emotional triggers can lead to positive activities like saving and preparing for the future, others can cause negative behaviors like avoidance, overspending, and emotional investing. Even positive emotions like self-confidence and optimism can lead to negative outcomes when they cause people to ignore the future.

Another way to help avoid letting emotion derail your finances is by harnessing the power of psychology:

- Build financial strategies to help neutralize your emotions during stressful periods.
- Work with a professional to get guidance and positive reinforcement.
- Automate your saving and investing through your workplace retirement plan to stay on track or let us help you set these up in other areas.
- Take small steps toward better financial behaviors like bi-weekly family budget meetings.
- Forgive yourself for mistakes and get back on track as quickly as possible.

How Can We Help?

As financial professionals, it's our job to help our clients untangle their emotions about wealth and guide them in developing strategies for the future. Part of that job is acting as an impartial party when dealing with stressful situations and powerful emotions about money. If you or someone you love is finding it difficult to tackle their finances or is experiencing a lot of financial stress, it may be time for some outside help. We've helped many clients work through tough periods and would be happy to be of service.

Source:
https://goo.gl/xlMeQI

10 Steps to 401(k) Success

The 401(k) plan is becoming the single largest source of retirement savings for a majority of American workers. According to the Society of Professional Administrators and Recordkeepers (SPARK), over 55 million people participate in 401(k) plans. If you participate in a 401(k) plan, the good news is that you have more control over your retirement money. The bad news is that you have more control over your retirement money.

For people who do not have the time or the financial knowledge, properly managing your 401(k) plan can be a daunting task. Moreover, if you do not manage it properly, the 401(k) can become, at best, a savings account and, at worst, a high-risk gamble with your retirement money.

1. Participate

The dollars in your 401(k) plan may represent 20-80% of your income at retirement. The government, and by extension, your employer, are giving you the opportunity to take advantage of two very powerful financial concepts: the ability to save money on a pre-tax basis, and the tax-deferred, compounded growth of those dollars. A 401(k) enables you to build a better nest egg than anything else you can do on your own because of that tax-deferred growth. Saving money before it is included in your taxable income reduces your annual tax bill. In addition, the earnings can grow on a tax-deferred basis, meaning you can earn money on your earnings! If your company offers a 401(k) plan, you need to be contributing, as soon as you can, and as much as you can. It is the first step in taking charge of your financial future.

In order to help you increase the size of your nest egg, as well as to encourage reluctant employees to save for retirement, many employers offer matching funds. The average employer offers a match of 50% of the amount you contribute up to 6% of your eligible salary. In the complex world of finances, we call this free money. If your employer is willing to give you money, you need to take it!

The only catch is that you must contribute some of your own money in order to receive the company match. If your employer matches up to 6%, you should be contributing at least 6%. The goal is to capture the entire company match (and then keep working there until you're fully vested). Most people need to save 10-12% in order to accumulate enough retirement savings so the above example is a minimum guideline.

2. Determine your investor profile

Investor, know thyself! Every investor is different and knowing yourself is the first step to allocating your investments appropriately. Before you can determine your asset allocation strategy, you must first be able to clearly define your goals. Remember, 401(k) money is retirement money and everybody has different dreams about what their retirement will entail – traveling, boating, etc. Also, you may have some pre-retirement goals for which you need to save some money. Each goal may represent a separate pool of money and there are different investment options available to you to help fund each goal. Second, determine the time horizon for retirement. Is it more than 10 years away? In general, the longer you have until you need the money, the more heavily weighted you should be in stocks. You'll have more time to recover any losses incurred during a market downturn. The third consideration concerns how psychologically comfortable you are with those market downturns. Will you really be able to tolerate the inevitable ups and downs that the stock market delivers?

3. Allocate appropriately

Asset allocation is the principle of deciding how to spread your investments across various asset classes, such as stocks, bonds, and cash. There are subcategories within each class, such as small, medium and large cap stocks. The idea is to diversify your holdings in order to potentially increase returns while diminishing risk. A variety of factors determines the appropriate allocation for each individual – When you need the money (not automatically dictated by your retirement age), how much money you have now and expect to need later, what kind of risks you're willing to take, and what other assets you have invested outside of your 401(k). Perhaps the most important factor is your time horizon – the more time you have, the more aggressive you can be.

4. Limit exposure to company stock

Company stock can be a double-edged sword. On one hand, as a loyal employee who understands the business, you want to participate in the growth of the company by being a shareholder. On the other hand, it is risky to have too much of your portfolio in one stock. Having too much money in a single stock issue creates a non-diversified portfolio. Most investors are able to reduce volatility significantly by having a diversified portfolio.

Besides, do you really want the fortunes of one company to control your salary, benefits, pension and your 401(k)?

5. Reallocate tactically

While it is not advisable to move your money around daily (market timing in general has not proven to be an effective strategy over the long haul), it is advisable to look at what your investments are doing from time to time. If one segment of the market has outperformed other segments significantly, then your portfolio is likely to be significantly out of balance. In other words, if you wanted to have 70% of your money in stocks, and it has grown to represent 80% of your portfolio, you need to rebalance your portfolio. You may also need to consider other strategic moves if your mutual fund suffers from style drift, there's a change in management, or if a similar fund with lower expenses becomes available. Take a disciplined approach to monitoring your investment portfolio.

6. Do not panic

Listening to the evening news, and hearing about the market changes on a daily basis, can cause even the most stalwart of investors to get nervous occasionally. Stocks fluctuate in value, it's the nature of the beast. Just remember that you are investing in your 401(k) for the long term. Although there are no guarantees that this will continue in the future, the direction of the stock market over the long term has been up. There will continue to be downward dips and swings, which is why knowing how you'll react to those swings is a factor to consider in your overall asset allocation. Selling when your investments are down is the best way to lock in your losses. Try to remember that patience is a virtue. Unless you believe that the investment cannot recover, it is usually better to hold on for the ride. In fact, it might be a good opportunity to buy more!

7. Know your plan features

Every 401(k) plan has unique characteristics. To maximize your plan you need to know all your options. Your plan documents, distributed by your benefits department, will outline options such as hardship withdrawals, loans, vesting schedule, limitations to moving money, and in-service withdrawals. Read this document carefully or have a financial advisor review it with you.

Most plans allow for hardship withdrawals. There are several tax and penalty issues associated with hardship withdrawals, so make sure you read your plan documents carefully and seek professional guidance. If you use the option for hardship withdrawal, you may be suspended from the plan for a specified period.

The vesting schedule refers to the years of employment before the company's discretionary contribution becomes yours. Vesting schedules either are graded, meaning you get a percentage of the money in successive years of employment; or cliff, meaning you get all the money at once after no more than five years. Keep the vesting schedule in mind if you are thinking about quitting your job.

If the plan does not meet your investment needs, and it allows for in-service withdrawals, you can move some of the money into other vehicles, such as an Individual Retirement Account (IRA). An IRA gives you many options for investing your money, thereby enhancing your diversification abilities.

8. Borrow judiciously - if at all

Early 401(k) plans had no provision for loans. Providers added most loan provisions as an incentive to encourage greater participation – participants would be more likely to save for retirement if they could access the money before they retired. This does not make loans an attractive feature! Many people believe (often erroneously) that if the interest rate on the 401(k) loan is less than they would have to pay elsewhere, the 401(k) loan is a good deal. That may be, but it does not take into consideration the real cost of the loan – the lost opportunity cost. The money in your plan cannot grow if it is not there! If the investments in your plan are growing by 12%, that is what borrowing from the plan costs you, plus growth on that growth. Another consideration needs to be the tax consequences of borrowing from your plan. While you do not pay any taxes on the money when you borrow it, you do pay the loan back with after-tax dollars. Then, when you begin to take withdrawals at retirement, you pay taxes on those dollars again – you are paying taxes twice. If you do some calculations, you may find that borrowing from your plan is an extremely expensive option. Borrow only if you must.

9. Consider tax consequences of your actions
Most of the things we do in our financial lives have tax consequences. In the case of the 401(k), you can avoid several negative tax consequences. If you leave your current employer and want to take your 401(k) money with you, be sure to roll it over directly to an IRA or to another employer's plan. You may leave it in your former employer's plan only if you have more than $5000 in your account. If you take a full distribution, you will pay federal and state taxes on the entire amount. If you are not yet 59 ½, you also will pay a 10% penalty. This could reduce your lump sum distribution to almost half its original value. It will not help your retirement nest egg. Do not take a lump sum at retirement, unless you need all the money at once. Take out only what you need, so the bulk of the portfolio can continue to grow tax-deferred. If you are over 70 ½, you must follow the Required Minimum Distribution rules. Rolling your money from your 401(k) to an IRA may make sense for a variety of reasons, and fortunately, an IRA rollover is not a taxable event.

10. At retirement, balance your needs for income and growth
Most people should disregard the notion that when you retire you should move all your money into bonds and stay clear of the stock market. Inflation, even when it is under control, has a nasty way of ensuring that a dollar in the future will not buy what a dollar does today. You must ensure that your investment holdings have the potential to outpace inflation, so that the income you receive from your investments can have the same purchasing power when you're 85 as it does when you're 65. This means you should have a portion of your money in investments that have the potential to outpace inflation, such as stocks, regardless of your age.

Continual Improvement
For 15 years, Jessica has helped grow our firm in terms of operations, people and processes. As an advisor, she assists plan sponsors in managing efficient retirement plans and helps employees retire with dignity. She recently earned the **Certified Plan Fiduciary Advisor (CPFA)** credential to evidence her ongoing commitment to excellence. Plan advisors who earn their CPFA demonstrate the expertise required to act as a plan fiduciary or help plan fiduciaries manage their roles and responsibilities.

Community Involvement
Our team enjoys being involved and giving back to our community in several ways.
Recently, Marc Shaffer became a member of the Greater Kansas City Chamber of Commerce, David Bush became a member of the Leawood Chamber of Commerce, and John Fales joined the Waldo Brookside Rotary Club.

Fall Internship Position
An internship with the Searcy group of companies exposes students to a broad range of experiences. They are trained on the "why" and "how" of firm operations before carrying out their responsibilities. If you know of anyone

who might be interested, please share with them our Internship Program Page and our Current Position Listing information:
http://searcyfinancial.com/blog-posts/104-internship-program
http://searcyfinancial.com/images/pdfs/03-2016_-_Available_Positions_Listing.pdf

BikeMS 2016

We are gearing up for BikeMS 2016 which will take place on September 17 & 18. Our team has raised more than $60,000 in 5 years to help support programs, services and MS research. If you are interested in joining our team or have friends who ride that may be interested, please invite them to join. Information and a link to join our team can be found at www.searcyfinancial.com/bikems-team-searcy-spinners. All riders are welcome, from beginners to experts!

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