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HOW TO MAKE IT
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FALL 2018 • VOLUME 2. ISSUE 19
Elena Cardone
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TEN MISTAKES THAT KEEP YOU FROM CONSISTE
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YOUR TOP Investment QUESTIONS ANSWERED
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TABLE OF CONTENTS

FALL 2018 • VOLUME 2. ISSUE 19

By Sarah Bird, CFP®

TOP 10 Concerns For New Investors

The best time to start investing was twenty years ago.

The second best time? Right now.

As women, we face several unique investment challenges. We have the wage gap, which means we often make less money for the same job, earning just $0.78 on the dollar compared to men in the United States. We often step out of the workforce to raise our family for several years, and during that time we are not earning or saving. And then we factor in the investment gap: women tend to be more risk averse in investing, preferring safer and less volatile investments. The tendency to avoid risk — or avoid investing altogether — reduces our expected return over time, and therefore our net worth. On top of this, women tend to live longer than men by an average of five years — so we actually need more savings for our retirement!

It's time to take control of our savings and investments. Make the commitment to yourself to get started with a long-term investment plan now. Have questions about the process? You've come to the right place. Here are the ten most common concerns for new investors — and ten solutions to get you started investing now.

1 Where do I start?

Start by saving. Aim to put aside 15% of your income — if that amount won't work for you, start where you can and work your way up.

When you're just starting out, keep in mind that solid investing is about time in the market, not timing the market. Instead of checking your investments daily and trying to guess what will get you the best returns tomorrow, you should diversify your investments across market caps and market sectors and participate in what the market has to offer over the long term.

2 How much should I have set aside in cash?

Build a fund of three to six months of your expenses. Keep this amount in cash in a savings account, where it can be accessed in case of an emergency. Just be sure to remove it from your day-to-day checking account, so you won't think of it as accessible for items outside of your monthly budget.

3 What should my long term goals be?

By the time you're 30, plan to have one year of your salary saved. By age 45, aim to have four times your annual salary saved, and by age 67 (traditional full retirement age), plan to have 10 times your annual salary saved. If you're already feeling behind on this amount, there's still time to catch up. Don't underestimate the power of compound interest. Not only will the money that you invest be put to work, but the earnings on your investments will work for you, too.

Don’t underestimate the power of compound interest.

4 How much money do I need before I start investing, and where should I invest?

Once you have three to six months worth of expenses set aside in your savings account, any additional amount can go to your investment accounts. To maximize your investments over time, you want to invest in three different "buckets," or types of accounts: taxable, qualified, and Roth IRAs. The three-bucket strategy will allow you to manage your taxes while you're making money, while your money is growing, and when you pull from your accounts during retirement.

Your taxable accounts are funded with money that you have already paid income taxes on. You will pay taxes on interest and dividends paid in these accounts each year, and also on any gains that are realized in the accounts. You will not pay any additional taxes when money is taken out of these accounts.

Qualified accounts include retirement plans, such as 401ks, that may be offered by your employer and IRAs. You will get a tax deduction in the current year for contributions made to qualified accounts. These accounts grow tax-free, and then when money is taken out of the qualified accounts, it is taxable to you as ordinary income.

Roth IRAs use your after-tax income, grow tax-free, and when you withdraw the funds you won't pay income tax. Try to keep a balance of investments across the three buckets. As you build these 'buckets,' remember that there are restrictions for when you can take distributions from your qualified accounts or Roth IRAs without incurring penalties — which is another reason your goal should be long-term savings, not short-term payouts.

5 Is it better to pay down debt or invest my money?

Paying down debt and investing money will both help you out in the long run. Technically, if your investment rate of return is higher than the interest rate of your debt, then you would end up with more money if you chose to invest. If the interest rate on your debt is higher than the rate of return on your investments, then you are better off paying down the debt.

However, debt often weighs heavily on people's minds, and it can be a relief to finally be debt-free. If you'll sleep better without debt, then just pay it off! Then again, if you choose to invest, aim to make more than the minimum monthly payment on your debts, or that process could take a lot longer than you might realize.

If you are self-employed, look into options such as a SIMPLE IRA, SIMPLE 401k, or an IRA.

6 My workplace has a retirement plan—should I participate?

Absolutely — especially if your employer offers a contribution match! An employer match is essentially free money, so take advantage of it. Workplace retirement plans represent the 'qualified' bucket. This is a great way to save and invest, and the money grows tax-free. If your employer does not offer a retirement plan, or you are self-employed, look into options such as a SIMPLE IRA, SIMPLE 401k, or an IRA.

7 I don't know where to start with estate planning.

Understand your personal, and your family's, balance sheet. Take stock of what you own and what you owe, and understand what will happen to your accounts when you die. For both qualified accounts and Roth IRAs, look at your beneficiary designations. It's a good idea to make estate-planning decisions while you are alive, to avoid costly expenses after death.

8 How do I protect myself?

One of your biggest assets is your own earning potential. How would your household function without your income? Double check your insurance plans — how much will you receive in the event of disability, and how much will your family receive in the event of your death? It sounds grim, but it's better to be prepared.

9 What about unexpected financial hurdles?

Having a strong financial plan in place allows you to stay on track in case of an emergency. If you have three to six months worth of expenses set aside in a savings account, you'll be better able to handle unexpected challenges. These can include medical bills, household or car repairs, and even possible job loss.

10 I have more questions!

Remember that you don't have to do everything on your own. An experienced financial advisor can help you review all of your options and make informed decisions. Look for a fee-only financial advisor — like Albion Financial Group!— for assistance. Every situation is different, and a place like Albion can help you find the right solutions for your financial future.

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