

The Abel Advisor

a Financial Stewardship Newsletter



Abel Financial Strategies

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Hi Everyone,

I hope you have survived the Arctic Vortex series this winter. Hopefully we are about at the end of that stuff! Spring should be around the corner and we'll be back outside enjoying all that comes with this time of year.

The markets have risen back from the low points we saw at the end of January. We appear to be in a year with some uncertainty. The pundits started off with an optimistic view but they have changed to a mixed view in the last 30 days. Mixed is usually a good sign for the markets though. We usually don't want everyone too giddy about the future - that usually indicates a top of the market cycle. In any case, I'll watch my indicators going forward and stay prepared to take action as needed.

Please enjoy the articles and let me know if you have any questions.

God's Peace,
A.W.

March 2014

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What Baseball Can Teach You about Financial Planning



Spring training is a tradition that baseball teams and baseball fans look forward to every year. No matter how they did last year, teams in spring training are full of hope that a new season will bring a fresh start. As this year's baseball season gets under way, here are a few lessons from America's pastime that might help you reevaluate your finances.

Sometimes you need to proceed one base at a time

There's nothing like seeing a home run light up the scoreboard, but games are often won by singles and doubles that get runners in scoring position through a series of base hits. The one base at a time approach takes discipline, something that you can apply to your finances by putting together a financial plan. What are your financial goals? Do you know how much money comes in, and how much goes out? Are you saving regularly for retirement or for a child's college education? A financial plan will help you understand where you are now and help you decide where you want to go.

It's a good idea to cover your bases

Baseball players minimize the odds that a runner will safely reach a base by standing close to the base to protect it. What can you do to help protect your financial future? Try to prepare for life's "what-ifs." For example, buy the insurance coverage you need to make sure you and your family are protected--this could be life, health, disability, long-term care, or property and casualty insurance. And set up an emergency account that you can tap instead of dipping into your retirement funds or using a credit card when an unexpected expense arises.

You can strike out looking, or strike out swinging

Fans may have trouble seeing strikeouts in a positive light, but every baseball player knows that striking out is a big part of the game. In fact, striking out is much more common than getting hits. The record for the highest career

bating average record is .366, held by Ty Cobb. Or, as Ted Williams once said, "Baseball is the only field of endeavor where a man can succeed three times out of ten and be considered a good performer."

In baseball, there's even more than one way to strike out. A batter can strike out looking by not swinging at a pitch, or strike out swinging by attempting, but failing, to hit a pitch. In both cases, the batter likely waited for the right pitch, which is sometimes the best course of action, even if it means striking out occasionally.

So how does this apply to your finances? First, accept the fact that you're going to have hits and misses, but that doesn't mean you should stop looking for financial opportunities. For example, when investing, you have no control over how the market is going to perform, but you can decide what to invest in and when to buy and sell, according to your investment goals and tolerance for risk.

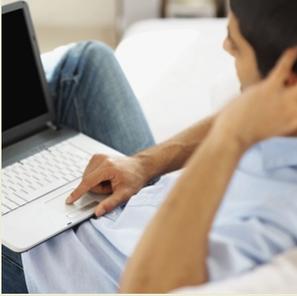
Warren Buffett, who is a big fan of Ted Williams, strongly believes in waiting for the right pitch. "What's nice about investing is you don't have to swing at pitches," Buffett said. "You can watch pitches come in one inch above or one inch below your navel, and you don't have to swing. No umpire is going to call you out. You can wait for the pitch you want."

Note: All investing involves risk, including the possible loss of principal.

Every day is a brand-new ball game

When the trailing team ties the score (often unexpectedly), the announcer shouts, "It's a whole new ball game!" Or, as Yogi Berra famously put it, "It ain't over 'til it's over." Whether your investments haven't performed as expected, or you've spent too much money, or you haven't saved enough, there's always hope if you're willing to learn both from what you've done right and from what you've done wrong. Pitcher and hall-of-famer Bob Feller may have said it best. "Every day is a new opportunity. You can build on yesterday's success or put its failures behind and start over again. That's the way life is, with a new game every day, and that's the way baseball is."

Test Your Knowledge of Financial Basics



A little knowledge can go a long way in pursuing your financial goals. For more information about the topics in this article, or for other personal finance-related questions, speak with a trusted financial professional.

All investing involves risk, including the possible loss of principal.

Working with a trusted financial professional is one of the best ways to help improve your overall financial situation, but it's not the only thing you can do. Educating yourself about personal finance concepts can help you better understand your advisor's recommendations, and result in more productive and potentially more prosperous financial planning discussions. Take this brief quiz to see how well you understand a few of the basics.

Questions

1. How much should you set aside in liquid, low-risk savings in case of emergencies?

- a. One to three months' worth of expenses
- b. Three to six months' worth of expenses
- c. Six to twelve months' worth of expenses
- d. It depends

2. Diversification can eliminate risk from your portfolio.

- a. True
- b. False

3. Which of the following is a key benefit of a 401(k) plan?

- a. You can withdraw money at any time for needs such as the purchase of a new car.
- b. The plan allows you to avoid paying taxes on a portion of your compensation.
- c. You may be eligible for an employer match, which is like earning a guaranteed return on your investment dollars.
- d. None of the above

4. All of the money you have in a bank account is protected and guaranteed.

- a. True
- b. False

5. Which of the following is typically the best way to pursue your long-term goals?

- a. Investing as conservatively as possible to minimize the chance of loss
- b. Investing equal amounts in stocks, bonds, and cash investments
- c. Investing 100% of your money in stocks
- d. Not enough information to decide

Answers

1. d. Conventional wisdom often recommends setting aside three to six months' worth of living expenses in a liquid savings vehicle, such as a bank savings account or money market mutual fund. However, the answer really depends on your own individual situation. If your (and your

spouse's) job is fairly secure and you have other assets, you may need as little as three months' worth of expenses in emergency savings. On the other hand, if you're a business owner in a volatile industry, you may need as much as a year's worth or more to carry you through uncertain periods.

2. b. Diversification is a smart investment strategy that helps you manage risk by spreading your investment dollars among different types of securities and asset classes, but it cannot eliminate risk entirely. You still run the risk of losing money.

3. c. Many employer-sponsored 401(k) plans offer a matching program, which is like earning a guaranteed return on your investment dollars. If your plan offers a match, you should try to contribute at least enough to take full advantage of it. (Note that some matching programs impose a vesting schedule, which means you will earn the right to the matching contributions over a period of time.)

Because 401(k) plans are designed to help you save for retirement, the federal government imposes rules about withdrawals for other purposes, including the possibility of paying a penalty tax for nonqualified withdrawals. You may be able to borrow money from your 401(k) if your plan allows, but this is generally recommended as a last resort in a financial emergency. Finally, traditional 401(k) plans do not help you avoid paying taxes on your income entirely, but they can help you defer taxes on your contribution dollars and investment earnings until retirement, when you might be in a lower tax bracket. With Roth 401(k)s, you pay taxes on your contribution dollars before investing, but qualified withdrawals will be free from federal, and in many cases, state taxes.

4. b. Deposits in banks covered by the Federal Deposit Insurance Corporation are protected up to \$250,000 per depositor, per bank. This means that if a bank should fail, the federal government will protect depositors against losses in their accounts up to that limit. The FDIC does not protect against losses in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if those vehicles were purchased at an insured bank. It also does not protect items held in safe-deposit boxes or investments in Treasury bills.

5. d. To adequately pursue your long-term goals, it's best to speak with a financial professional before choosing a strategy. He or she will take into consideration your goals, your risk tolerance, and your time horizon, among other factors, to put together a well-diversified strategy that's appropriate for your needs.



What's New in the World of Higher Education?



The appeal of MOOCs

The combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs--which stands for "massive open online courses"--will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

Whether your son or daughter is expecting college decisions any day now or whether you're planning ahead for future years, here's what's new in the world of higher education.

Costs for 2013/2014

Question: What goes up every year no matter what the economy at large is doing? Answer: The cost of college. The reasons are many and varied, but suffice it to say that this year, like every year, college costs increased yet again.

For the 2013/2014 year, the average cost at a 4-year public college is \$22,826, while the average cost at a private college is \$44,750, though many private colleges charge over \$60,000 per year (Source: The College Board, Trends in College Pricing 2013). Cost figures include tuition, fees, room and board, books, and a sum for transportation and personal expenses.

What's a parent to do? For starters, check out net price calculators. Now required on all college websites, net price calculators can help families estimate how much grant aid a student might be eligible for at a particular college based on his or her individual academic and financial profile and the school's own criteria for awarding institutional aid. You'll definitely want to spend some time running numbers on different net price calculators to see how schools stack up against one another on the generosity scale.

New rates on federal student loans

Last summer, new legislation changed the way interest rates are set for federal Stafford and PLUS Loans. Rates are now tied to the 10-year Treasury note, instead of being artificially set by Congress. For the current academic year (July 1, 2013, through June 30, 2014), the rates are:

- 3.8% for undergraduate students borrowing subsidized and unsubsidized Stafford Loans
- 5.4% for graduate students borrowing unsubsidized Stafford Loans
- 6.4% for parents borrowing PLUS Loans

The rates are determined as of June 1 each year and are locked in for the life of the loan.

A renewed focus on IBR

Federal student loans are the preferred way to borrow for college because they offer a unique repayment option called "income based repayment," or IBR. Under IBR, a borrower's monthly student loan payment is based on income and family size and is equal to 10% of discretionary income. After 20 years of on-time payments, all remaining debt is generally forgiven (loans are forgiven after 10 years for

those in qualified public service).

Enrollment in the program has been relatively modest, but last fall, the Department of Education contacted borrowers who were having difficulty repaying their student loans to let them know about IBR. The department also put the IBR application online and has made it possible for applicants to import information from their tax returns.

A government push for information

Last summer, as part of his push to make college more affordable, President Obama announced a proposal that would require colleges to report the average debt load and earnings of graduates (in addition to the information on tuition costs and graduation rates that they already report), with the availability of federal financial aid being linked to those ratings. In response, most colleges have cried foul, claiming that average debt is not a valid indicator of affordability because colleges have vastly different endowments and abilities to award institutional aid, and that post-graduation salaries can depend on variables outside of a college's control. No reporting requirement has been finalized yet, but the trend is clearly toward the government requiring colleges to make their costs and return on investment as transparent as possible so families can make more informed choices.

The growth of MOOCs

You may have heard the term "MOOCs," and going forward, it's likely you'll hear it a lot more. MOOCs stands for "massive open online courses," and these large-scale, online classes have the potential to revolutionize higher education. One of the earliest MOOCs was a course on artificial intelligence at Stanford University in 2011, which attracted 160,000 students from all over the world (though only 23,000 successfully completed the course, earning a certificate of recognition).

Today, hundreds of MOOCs are offered free of charge by many well-known, leading universities. The piece of the puzzle that has yet to be solved is what credit or degree will be given when courses are completed and how pricing will work. But the combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

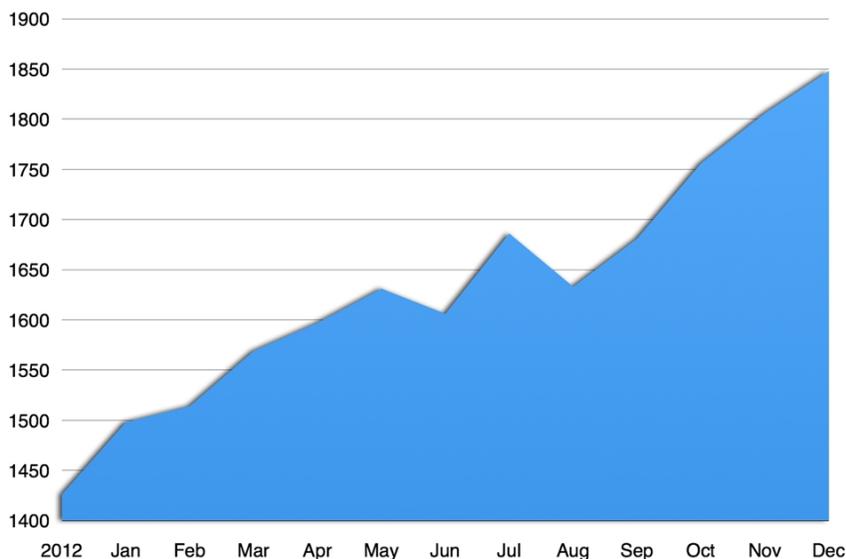


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Graph: The S&P 500 Month by Month in 2013



Past performance is no guarantee of future results, but stocks had an extraordinary run in 2013. The Standard & Poor's 500 set 45 new all-time closing records during the year and by November had surpassed 1,800 for the first time ever. Despite some stumbles during the summer, by the end of 2013 the index had nearly tripled since its March 2009 financial-crisis low. **Note:** All investing involves risk, including the possible loss of principal.



How much money should I save for retirement?

The obvious answer is, as much as you can. You'll probably need to build a fund that you can draw on for much of your retirement income.

This may be possible to do if you start early and make smart choices.

Contribute as much as you can to tax-advantaged savings vehicles (e.g., 401(k)s, IRAs, annuities). Make sure to contribute as much as necessary to get any employer matching contribution--it's essentially free money. Then round out your retirement portfolio with other taxable investments (e.g., stocks, bonds, mutual funds*). As you're planning and saving, keep in mind that you may have 30 or more years of retirement to fund. So, you may need an even bigger nest egg than you think.

***Note:** All investing involves risk, including the possible loss of principal. Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.

Your particular circumstances will determine how much money you should save for retirement. Maybe you have a pension plan, or

your Social Security benefits will be large enough to tide you over. If so, you may not need to save as much as other people. But other personal factors will enter the picture, too. If you plan to retire early (e.g., age 50 or 55), you'll have even more retirement years to fund and may need more retirement assets than someone who plans to work until age 65 or 70. Conversely, you may need fewer assets if you plan on working part-time during retirement.

Your projected expenses during retirement will also help determine how much money you'll need and how much you need to save to get there. Certain costs (e.g., food, utilities, insurance) will be shared by almost all retirees. But you may still be saddled with retirement expenses that many retirees no longer have (e.g., mortgage payments or a child's tuition).

Expenses will also depend on the type of retirement lifestyle you want. How many nights a week will you dine out? How much traveling will you do? These kinds of questions will give you a better idea of how much money you'll be spending once you retire. In general, the greater your anticipated retirement expenses, the more you need to save each year to meet those expenses.

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