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Is It Time to Rethink College?

College costs can seem staggering. For the 2016–17 school year, the average annual total cost was $49,320 for a four-year private university and $24,610 for a four-year public university (Source: *Trends in College Pricing*, 2016). It's no wonder that students and parents alike wonder whether college is really necessary.

It is estimated that college graduates will earn approximately 65% more over their working lives than high school graduates. In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough by age 36 to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years (Source: *Education Pays*, 2013).

While that doesn't sound like a bad trade-off — break even by age 36 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $10,138 annually to the cost. And if your student goes to a private university, the costs are typically double what you would pay at a public university.

Those figures also don't consider how you pay for that education. If you pay primarily with student loans, it could take a lot longer than age 36 to break even.

That doesn't mean your child shouldn't go to college, just that you may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the cost of a college education:

✔ **Look for scholarships that are not based on need.** Generous merit scholarships are often available to students with outstand-

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Shopping for Value in College Education

While a college education remains one of the largest investments you and your children will make, there are still bargains out there. Here are some tips on where to find them:

Take aim at elite, private schools with super-generous financial aid programs. It may surprise you, but some of the priciest elite schools are considered the top bargains in all of U.S. higher education. That's because they're blessed with huge endowments that can run into the billions and have generous financial aid policies.

Consider top-rated state universities. For residents, state colleges and universities remain the best bargains among four-year schools.

Reach for rock-bottom state school bargains. Search for cheapest colleges on the Internet, and you'll find lists of the least-expensive colleges.

Take the community college route. They are being used by affluent families as a deliberate way of holding down the cost of getting a bachelor's degree. Just make sure that any credits earned at a community college will transfer to the four-year university. ❍❍❍

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Is It Time?

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ing high school grades and above-average entrance exam scores. Scholarships may also be available for athletes and for those with strong music backgrounds. If your student has qualities that a college is looking for, that college may be more willing to offer scholarships to attract him/her.

✔ **Apply to several different colleges.** Don't make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges. This is especially true in these economic times when more students are applying for aid and colleges have less aid available.

✔ **Talk to the university.** If the financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing the college offers from other universities, you may be able to increase your financial aid package.

✔ **Don't overlook state public universities.** Costs of public universities, especially in your state, are typically much more affordable than private universities.

✔ **Decide whether it makes sense to go to an expensive private college.** First, you need to evaluate how much financial aid your student would be entitled to, since many private universities offer substantial aid packages. If you are still left funding much of the cost yourself, consider whether your child's intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, you may not want to send him/her to an expensive college.

✔ **Consider starting at a two-year college.** Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2016–17 school year, the average cost of tuition and fees at a public two-year college is $3,520 compared to $9,650 at a public four-year college and $33,480 at a private four-year college (Source: *Trends in College Pricing*, 2016). Before starting, however, your child should determine to which four-year college he/she will transfer and make sure all credits from the community college will transfer to the four-year college.

✔ **Send more than one child to the same university.** Many universities offer discounts on tuition if more than one child attends at the same time.

✔ **Accelerate your child's studies.** You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college, which will then transfer as college credits. Advanced placement courses may also count as college credit.

Please call if you would like to discuss this topic in more detail.

Risk Tolerance and Your Retirement Portfolio

Risk is always going to be a factor in the stock market. As we age, however, risk becomes an even more important factor that no responsible investor can afford to overlook.

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major market upswings and downswings. This refers not just to highly volatile stocks, but to stocks themselves, which tend to be riskier than most other forms of investment.

If a person is said to have a high risk tolerance, he or she likely tends not to worry so much about the potential risk of certain stocks or having a large amount of stocks. Those with low risk tolerance are on the other end of spectrum, often too cautious to deal with volatile stocks or the market in general.

The important thing to recognize here is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover. It may seem as if adjusting risk tolerance is challenging, and for some people it certainly can be.

That being said, often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your portfolio to be comprised of mostly stocks. Many successful investors find that moving away from stocks toward bonds is an effective later-in-life strategy.

Once you have a general percentage figured out, take a moment to determine how many stocks will actually make up that portion of your portfolio. This can vary significantly in terms of personal preference, but often 10 stocks are mentioned as a reasonable number to hold in your portfolio. Keeping your stock investments to 10 or less allows you to pay closer attention to what's actually happening with your investments.

The best way to get a better sense of what is a realistic risk tolerance for you to have at this point in life is to work closely with your financial advisor. Please call if you'd like to discuss this in more detail. ❍❍❍

Make Your Savings Last through Retirement

What many people don't realize is just how hard it is to actually make one's money last *through* retirement without having proper planning in place. The fact is, retirement is tricky no matter how well-off you think you are going into it, and making your money last is something that can only be achieved with careful calculation.

Ready to learn how to make the most of your retirement without running short of money halfway through? Here are a handful of tips that you simply can't afford to ignore.

1. Consider Longevity Insurance

While the concept of longevity insurance is certainly nothing new, it's something many people are actually unfamiliar with. Essentially, many of today's insurance companies have tweaked the ways in which single premium annuities are paid out, allowing comfort to baby boomers who are concerned about getting their money when they need it most. For example, if you were to purchase a policy at age 65 for $25,000, the policy would begin paying out $3,000 per month once you reach the age of 85. For healthy and active individuals, longevity insurance is worth a second look.

2. Make Your Home Age-Proof

One thing that often gets overlooked by those who are preparing for retirement is the importance of age-proofing one's home. Over time, wear and tear can wreak havoc on even the most well-built homes, and repairs can end up being extremely costly. What's the solution? Make your home age-proof before entering retirement. An age-proof home is one that is not only able to withstand the elements and the test of time, but also one that will be easy for you and a partner to live in when you reach old age. Most age-proof homes don't feature staircases, for example, as mobility issues may arise later in life.

3. Choose the Right Withdrawal Rate

The withdrawal rate you choose for your retirement plan will have a major impact on how comfortably you're able to retire. Many people make the mistake of choosing a withdrawal rate that is simply too high, such as 10% in their first year of retirement. While it's certainly tempting to take out a fair amount of money and treat yourself once retirement age has been met, most people can agree that it's not a particularly smart idea.

In the end, the withdrawal rate that is right for you will depend largely on the strength and diversification of your portfolio. A smart starting point for the first year of retirement for most people is 4%, keeping the same rate plus adjusting for inflation in later years.

4. Keep a Solid Rainy-Day Fund

Most people believe the best way to ensure a comfortable retirement is to put as much money as possible into their retirement funds. However, it's essential to keep a solid rainy-day fund in case of an emergency. This fund will exist *outside* of your retirement plan. How much should you keep? In general, most people will benefit from keeping a rainy-day fund available of at least six months' worth of living expenses. Though it doesn't seem like much, it may be exactly what you need should an emergency occur.

5. Get a Light Job

Reaching the age of retirement doesn't mean you need to stop working altogether. For many, the shock of no longer working can actually be rather hard to deal with. There's something about community, for example, that can be hard to find outside a normal work environment. For some, the solution can be found in getting a light job once settled into retirement, and doing so comes along with a number of benefits.

While most people don't want to work hard once they've retired, there are plenty of lighter jobs that can not only help to foster community, but also bring in an increased amount of income each month. This money can either be put toward a savings account to add extra insurance for retirement, or you can choose to use it as spending money. Either way, holding a casual job after retirement is a great way to stay active and remain happy and healthy.

Retirement is a tricky process, and there's no way to plan it better than working one-on-one with your financial advisor. Please call if you'd like to discuss this in more detail. ❍❍❍

Sometimes, We Are Our Own Worst Enemy

To paraphrase Barry Ritholtz, a financial author, newspaper columnist, and frequent commentator on *Bloomberg Television*, "When it comes to investing, we are our own worst enemy." How can this be? For years, we've read financial publications and self-help guides. We've listened to financial broadcasts and podcasts. We all know to set long-term goals and invest for the future, and we know the importance of managing fees. We understand the goal is to buy low and to sell high. What makes investing so hard? How are we doing?

According to Dalbar's *2016 Quantitative Analysis of Investor Behavior*, not very well. For the 20-year period ending 12/31/15, the average asset allocation fund investor (your typical diversified portfolio investor) has realized an annual return of 2.11%.[1] Yet a custom "benchmark" representing 50% of the S&P Index and 50% of Barclays U.S. Aggregate Bond Index returned 6.77% per year — more than three times the actual return realized by the average retail investor.

In 1990, Harry Markowitz, Merton Miller, and William Sharpe won the Nobel Prize in Economics for their work in modern portfolio theory. Their groundbreaking work still serves as a foundation for structuring portfolios today. But such a well-diversified portfolio must be implemented and maintained consistently and unemotionally, over an extended period, in order to realize the proven benefits. This is a lot easier said than done. As Joe Nocera, another well-known business journalist, once said, "Most human beings lack the skill and emotional wherewithal to be good investors." Despite his extensive financial knowledge, he put himself in this same category. The emotional wherewithal to which Mr. Nocera refers falls under the academic heading of Behavioral Finance. Several elements of Behavioral Finance are reviewed below.

As human beings, we are all influenced by our experiences and emotions. If we touch a hot surface and experience pain, what do we do? Remove our hand, of course. Well if we lose a good deal of money in an investment and experience pain, what do we do? The natural reaction is to unload the investment so as to avoid additional pain. This action may run contrary to the goal of buying low and selling high. It is also an example of **Myopic Loss Aversion**. We all feel the pain of loss much more deeply than the joy of a gain. Studies have shown that people choose to take a risk only when the potential for gain is two times greater than the potential loss. Such an emotional bias works against us as investors.

In another example of Myopic Loss Aversion, a 1997 study showed that a group of investors reviewing their portfolio once per year settled on an average 70% allocation to stocks. A group of investors that reviewed the portfolio much more frequently, on a monthly basis, settled on a much less risky portfolio of 41% stocks.[2] Frequent exposure to market volatility and the subsequent experience of pain significantly impacted the amount of risk the average investor was willing to take.

Herding – We are inclined to follow the crowd because we fear making mistakes or missing opportunities. A common adage is that two emotions drive the market — fear and greed. It's hard to go against the crowd. In fact, studies have shown that the brain actually secretes a chemical to create emotional pain if one is forced to go against the crowd. Herding is the human emotion that "fuels" the creation of market bubbles and crashes. Again, herding runs counter to the goal of buying low and selling high.

Anchoring and Home Bias – When making decisions, we have a tendency to rely too heavily on one piece of information or upon what we know or better understand. This explains why people buy excess stock in their own company, despite the concentration risk. This also explains why investors tend to invest in their own countries. As of December 31, 2016, 74% of U.S. investor portfolios was invested in domestic stocks and bonds, despite U.S. stocks and bonds only representing 36% of global markets.[3] As another example, southern states routinely invest more in energy companies than do other areas of the country; western states routinely invest more in technology companies; midwestern states routinely invest more in industrial companies; and eastern states
routinely invest more in financials.

Overconfidence – A great majority of people think they are better, smarter, and wiser than they really are. The markets are very efficient. Nobody can consistently time the market or outperform. Market actions and reactions seem so obvious in hindsight, but are anything but obvious in the moment.

Endowment Effect – Investors tend to keep investments they already own, becoming attached to an asset. Sell decisions are often harder to make than buy decisions because of emotions involved. Selling a losing investment can also feel like admitting to a mistake.

The study of Behavioral Finance is broad and extensive. I have only scratched the surface in this article. Suffice it to say that we all bring emotional baggage to the experience of investing. With advance planning, realistic expectations, and by remaining aware of our biases and emotions, we can minimize impulsive decisions that sabotage our portfolios. Paul Samuelson, a famous economist, once said, "Investing should be more like watching paint dry or grass grow. If you want excitement, take $800 and go to Las Vegas." We certainly agree with Mr. Samuelson's long-term perspective.

Sincerely,

Steven Criscuolo

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[1] Source: *Quantitative Analysis of Investor Behavior*, 2015 Update, Dalbar, Inc. The Average Equity Investor is calculated using results supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions, and exchanges. Results capture realized and unrealized capital gains dividends, interest, trading costs, sales charges, fees, expenses, and other costs.

[2] Thaler et al. "The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test." *The Quarterly Journal of Economics 112.2.* 1997.

[3] *Guide to the Markets*. JPMorgan Asset Management. December 31, 2016.