BURKE
FINANCIAL STRATEGIES
An Independent Firm
99 Wood Avenue South, Suite 102
Iselin, NJ 08830
(866) 603-3700 • (732) 744-1240 Fax

STEVEN CRISCUOLO, CPA
Financial Advisor
steven.criscuolo@burkefinancialstrategies.com

JOHN B. BURKE, MS, CFP®
Financial Advisor
john.b.burke@burkefinancialstrategies.com

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MARCH 2017

Your Financial Planning Building Blocks

A strong financial plan doesn't just appear out of thin air — it's something that takes conscious effort to create. By assembling your five basic building blocks of financial planning and understanding how they fit together, you'll be able to create a plan that works for you.

Building Block #1: Survey the Landscape: Before you make any big moves, you need to know where you stand. Gather all your financial information together, including bank and investment account statements, insurance policies, estate-planning documents, mortgage and credit card statements, and anything else you think might be relevant. Then, take an inventory. Determine your total assets and liabilities. Look at your emergency savings. Calculate the cost of your current lifestyle. The goal of this exercise is to get a big-picture overview of where things stand with your finances so you know what areas you may need to address.

Building Block #2: Look at Your Tools: First, there are the basics: Do you have access to budgeting software? What about a 401(k) plan at work? Do you have other kinds of savings accounts? Make sure you're making the best possible use of these tools. Then think about what tools you may need to achieve your goals. For example, if saving for college is a goal, you may need to set up a 529 plan. If you're saving to buy a house, a separate savings account for that purpose may be warranted.

Building Block #3: Design a Blueprint: Even if you have the best tools, they'll do little good if you don't use them in a coordinated way. Sketch out what you want your financial future to look like and design a plan for how you can get there. For example, let's say you want to retire abroad in 30 years. Your financial blueprint would

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Is Early Retirement Still Feasible?

Is early retirement possible these days? Most will say no, but it can be done. It just takes a little bit of planning on your part and a new look at what it takes to become happy in life.

Step one is save, save, save. It sounds obvious, but the more you save now, the more you can leverage things like compound interest. The second side of this equation is to curb your spending and fully appreciate the power of frugality. The bonus to this tactic: by the time you retire, you'll already be acclimated to a more frugal lifestyle, which will further extend your retirement funds.

You may even want to reconsider retiring all together. The traditional retirement for most people consists of sitting back in their easy chair all day. Why not redefine the concept of retirement and take the money you've saved and use it to fund that second career you've always dreamed of? Consider working as an artist, teacher, or even something like a part-time job at a store you like. It's a great way to rearrange your life to reap all the benefits of retirement without the negative mental side effects of abruptly quitting your job. ❍❍❍

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Your Financial

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show you how to make that happen. You might start by building up your emergency fund and reducing debt. The next step might be to make sure you are maximizing your retirement contributions at work and have adequate insurance coverage to protect your family from risk. As you get closer to retirement, your blueprint might address issues such as securing health insurance outside of the U.S. and a plan for dealing with taxes as an expatriate.

Building Block #4: Build Your House: This is the fun part. Now you get to put your financial plan into action by taking concrete steps to achieve your goals. Just as you would with a house, focus on the foundation first. Make sure your income and expenses are in line and you can meet all your immediate financial needs. Then build your walls and make yourself more secure by investing and accumulating wealth. Of course, you'll also need a roof over your head in the form of insurance to protect you from the unexpected. Finally, focus on the upgrades or the nice-to-have features that make life a little more fun — vacations, nice cars, new toys, etc.

Building Block #5: Perform Regular Maintenance: Financial planning is an ongoing process. You'll need to perform regular maintenance to make sure everything is running smoothly. Your life will change in ways you probably can't anticipate right now (you might experience an unexpected illness or job loss, or even receive a financial windfall). Your plan will help you cope with those changes, but you may also need to adjust your plan to accommodate your new situation. Check in a few times a year with your financial advisor to make sure no cracks have appeared in your plan and make adjustments as needed. ❍❍❍

To Sell or Not to Sell?

To buy or not to buy? To sell or not to sell? Those are perhaps two of the most difficult questions that an investor will ever face. Fortunately, there are some rough guidelines you can use to make your buying and selling decisions.

When to Sell

You made a mistake in buying the stock. No, we don't mean you suddenly regret the purchase. But if you did your research, chose your stock, and then realized there was some error in your analysis, it might be right to sell.

When a stock no longer fits in your portfolio. Your portfolio will evolve as your needs and investing goals change. As that happens, a certain stock may no longer be a good fit. Perhaps you hold shares of a more volatile stock or your portfolio has become overweighted in stocks in emerging markets or the technology sector. At that point, you might want to sell some of your holdings to get your portfolio back on track.

When the business has changed fundamentally. If you bought stock in a company that did one thing and now it suddenly does something completely different, that *might* be a good reason to sell. Ditto if something else has changed dramatically. For example, the company's core product turns out to be dangerous, or the entire industry is facing big challenges. Basically, if the fundamental reasons you bought the stock no longer apply, it may be time to rethink your investment.

When a stock is overvalued. This one is tricky, and you may need the help of a trained investment professional to help figure it out. But when a stock price continues to increase, it's not always a good thing. It might be because investors have overvalued the stock. If that's the case, a dramatic fall could be coming.

When Not to Sell

Because everyone else is. Investors tend to move in packs. When everyone else is dumping the stock of a certain company, you may take that as a signal that you should get out, too. But the actions of the many don't necessarily mean that you should behave the same way. Always make your investment decisions based on a careful analysis of both larger economic issues and your own personal situation, not what everyone else is doing.

Because the price has changed. Shifts in the price of a stock might be a reason to consider selling shares, but that shouldn't be your sole motivating factor. Stock prices move up and down on a regular basis — that's the nature of the stock market. If you panic and want to sell every time the price dips, or get greedy and want to sell when the price skyrockets, you could end up with both extra transaction costs and lost potential gains.

When owning the stock is not part of your overall financial plan. You'll probably have the most success with investing if your decisions are guided by a solid financial plan. That plan will tell you when it's a good time to buy or sell an investment. If you're tempted to make a big move but it doesn't fit with your overall plan, you should probably hold off or at least discuss your feelings with a financial advisor before making that move.

Do you have questions about whether or not now is a good time to buy or sell a stock? Please call if you would like to discuss this in more detail. ❍❍❍

FR2017-1018-0159

Should You Contribute to a Roth 401(k) Plan?

The Roth 401(k) is patterned after the Roth individual retirement account (IRA) — contributions are made from after-tax earnings that grow tax free, and qualified distributions are withdrawn tax free. Here are the basics, including how Roth 401(k)s differ from Roth IRAs:

✔ **Eligibility** — Employees eligible for their employer's 401(k) plan are also eligible for the Roth 401(k). There are no income limitations for contributions to a Roth 401(k). In 2017, with a Roth IRA, single taxpayers with modified adjusted gross income (AGI) less than $118,000 and married taxpayers filing jointly with modified AGI less than $186,000 can make contributions, regardless of their participation in a qualified retirement plan. Contributions are phased out for single taxpayers with modified AGI between $118,000 and $133,000 and for married taxpayers filing jointly with modified AGI between $186,000 and $196,000 in 2017.

✔ **Contributions** — The contribution limits for the Roth 401(k) are the same as for the regular 401(k) plan. In 2017, you can contribute a maximum of $18,000 plus a $6,000 catch-up contribution for those age 50 and over, if permitted by the plan. However, your employer may set lower limits to comply with nondiscrimination rules. Contributions can be split between a regular and Roth 401(k), as long as total contributions do not exceed the maximum. Funds contributed to each type must be held in separate accounts. Any matching contributions made by the employer must be held in the regular 401(k) account, so they will be taxable when withdrawn. In 2017, the contribution limits for a Roth IRA are $5,500, plus an additional $1,000 catch-up contribution for individuals age 50 and over. You can make contributions to both a Roth 401(k) and a Roth IRA, as long as you meet the income eligibility rules for the Roth IRA.

✔ **Required distributions** — With a Roth IRA, you are not required to take distributions during your lifetime. Thus, Roth IRAs are a good estate-planning vehicle for individuals who want to leave tax-advantaged assets to beneficiaries, since beneficiaries can also withdraw qualified distributions without paying federal income taxes. With a Roth 401(k), annual distributions must be taken after age 70½. However, funds in the Roth 401(k) can be rolled over to a Roth IRA, which would not require distributions.

✔ **Conversions** — Individuals under certain income levels can convert a regular IRA to a Roth IRA, as long as income taxes are paid on the amount that would have been taxable if withdrawn. As of 2010, all taxpayers, regardless of income level, can convert a regular IRA to a Roth IRA. There is no provision to convert a regular 401(k) to a Roth 401(k).

If your employer offers both a regular and Roth 401(k), which plan should you choose? Your decision will typically involve the same types of considerations as those made when deciding between a traditional deductible and Roth IRA. Two major factors include:

✔ **Your current income tax bracket versus your expected income tax bracket during retirement.** If you expect your income tax bracket to be higher during retirement, a Roth 401(k) will typically result in more retirement funds. Younger workers will often find themselves in this situation. Individuals who plan to fund most of their retirement with IRAs and 401(k) plans may also find their retirement income tax bracket higher. On the other hand, if you expect your tax rate to decline after retirement, you will typically want to use a regular 401(k) plan. Workers who are nearing retirement age may find themselves in this situation. If you expect your tax bracket to be the same, both alternatives will typically provide the same balance.

✔ **Whether you plan to leave assets to beneficiaries.** If you are using your 401(k) plan as a vehicle to provide tax-advantaged assets to beneficiaries, you should consider the Roth 401(k). Once you retire, you can roll the balance in your Roth 401(k) to a Roth IRA, without any tax consequences. You then do not have to take any withdrawals during your life. When your beneficiaries inherit the Roth IRA after your death, they will have to take distributions over their expected life expectancies, but those distributions will be federal income tax free as long as the distributions are qualified.

Keep in mind that this does not have to be an either/or decision. You can split your contributions between the Roth and regular 401(k) plans, although matching employer contributions must be contributed to the regular 401(k).

Please call if you'd like to discuss the Roth 401(k) in more detail. ❍❍❍

Media Appearances in 2017

We are often asked if John[1] will be making any more TV appearances and, if so, can we alert clients ahead of time. Yes, John will be making more TV appearances, but most appearances cannot be announced beforehand because he gets little notice. With all due respect to John, he is not an "A" level guest, and perhaps not even a "B" level guest. He ends up getting calls from stations like CNBC and Fox at the last minute, often as a substitute. In fact, John stopped taking the Fox appearances because Fox no longer provides an electronic link for his segments. Without an electronic link that we would share with clients and prospects, appearances seem not worthwhile.

There are some upcoming appearances that we can announce. The Business News Network (BNN), which is broadcast out of Toronto, has been offering John the opportunity to do a one-hour show. On March 1, John will appear in his fourth one-hour show at 1:00 PM. This is a call-in show during which viewers ask investment questions. Unlike Cramer on CNBC, John often uses questions to illustrate how we believe a stock portfolio should be constructed.

We currently follow about 130 large companies. We know these companies well; and when asked about one, John will provide a thorough analysis. Frankly, we're not convinced that some of the big-name talking heads have in-depth knowledge on all the stocks they discuss. When asked about a company we do not follow closely, John will often use the question to make a point. For example, in the last show, he was asked about Under Armour. John pointed out that we don't follow the stock closely because it did not pass our preliminary screening process. The stock often exhibits a high level of volatility and, therefore, has a high "beta." This past week, Under Armour reported poor earnings and the stock fell almost 30%.[2] Less-volatile stocks tend not to exhibit such large swings on an earnings report.

John has recently been asked to make an appearance on Asset TV, an up-and-coming cable station focused on investing. The date has not been set. In addition to broadcast media, John is often featured in investment publications. He will be quoted in a *Kiplinger's* article about dividend-paying stocks in their March issue.

Helping clients is always our number-one priority. We believe that making and sharing appearances is helpful in that they allow John to further communicate with clients. In addition, there is nothing like live TV to keep John on his toes. That is one of the reasons why Burke Financial recently signed up to receive investment and financial data from FactSet. FactSet is one of the fastest-growing investment analytics companies, and they provide a wealth of data on public companies and markets around the world. If you read *The Wall Street Journal*, you will likely see FactSet listed as a source more than any other analytics provider.

Though expensive, FactSet helps John keep abreast of markets for TV appearances and, more importantly, helps all of us to make better-informed investment decisions. For example, FactSet provides detailed graphs and figures for individual bonds — information we've never had before. This is unusual and difficult, because there are well over 50,000 different issuers of bonds, and many times that number of individual bonds (issuers usually offer various maturities).

The good news is that John can still enjoy a dinner out without being interrupted to sign autographs. John will continue to make media appearances as long as doing so enhances communication with our clients and with company prospects.

[1] *John B. Burke, MS, CFP®, Financial Advisor*

[2] *Data provided by FactSet.*

Financial Thoughts

Women have retirement income that is 25% lower than their male counterparts. That disparity is found both in traditional pensions and 401(k) savings, where women's balances are approximately two-thirds of men's balances (Source: *Journal of Financial Planning*, October 2016).

The average American expects to retire at age 65, up from age 63 in 2002. However, 26% of baby boomers expect to retire at age 70 or older (Source: *Journal of Financial Planning*, October 2016).

The average amount of Social Security benefits paid to those over age 65 in retirement was $12,232 in 2014 (Source: MarketWatch, 2016).

Approximately 30% of adults born in the 1940s and 1950s have a traditional pension plan, compared to 11% of those born in the 1980s (Source: Urban Institute, 2016).

Medicare, by itself, covers approximately 60% of medical expenses (Source: *The New York Times*, 2016).

Approximately 20% of U.S. workers are making less than they did five years ago, while 23% say that their job does not take full advantage of their skills (Source: Gallup, 2016). ❍❍❍