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MARCH 2019

Your Retirement-Planning Assumptions

To enjoy your retirement without financial worries, make sure you have enough money saved when you retire. However, that calculation can be a daunting task, since a variety of factors affect your answer, and inaccurate estimates for any factor can leave you with way too little in savings. Some of the more significant factors include:

What percentage of your preretirement income will you need? You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for health insurance, and maintain significant debt levels, even 100% of your income may not be enough. You'll need to take a close look at your expenses and planned retirement activities to come up with a reasonable estimate.

When will you retire? Your retirement date determines how long you have to save and how long investment returns can compound. You want to make sure your retirement savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly affect the ultimate amount you'll need.

How long will you live? Today,

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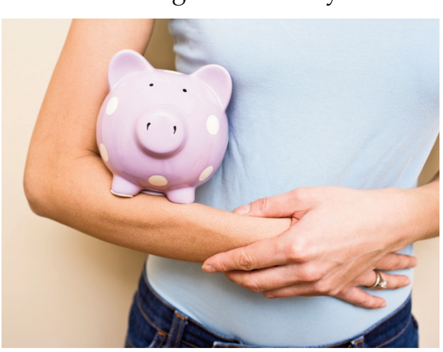

Segregating Your Risk

Your willingness to assume risk with your investments is not necessarily a fixed concept. You may be less willing to take risk with investments designated for an essential financial goal, while you may be more willing to take risk for nonessential goals. However, those varying risk levels may be difficult to assess if all your investments are commingled in one account.

The point is that your willingness to assume risk is not static. It will vary depending on how important the goal is to you and how much you can designate to it. Commingling all your investments for all goals in one account may make it difficult to analyze. Thus, you might want to set up separate accounts for each goal, so you can more closely match the investments to your willingness to assume risk for each goal.

Please call if you'd like to discuss this concept in more detail. ❍❍❍

FR2018-1017-0015

Assumptions

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the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people look at average life expectancies when estimating this, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

What long-term rate of return do you expect to earn on investments? A few years ago, many retirement plans were calculated using fairly high rates of return. Those high returns don't look so assured now. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

Have you considered inflation? Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-term inflation rates, since your retirement could last for decades.

What tax rate do you expect to pay during retirement? Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation. ❍❍❍

6 Life Insurance Mistakes to Avoid

For life-insurance seekers, here are some costly mistakes to avoid:

Mistake #1: Thinking you can't afford life insurance. The abundance of options available to people of all ages, income levels, and health statuses can make life insurance attainable for people who may have believed it was only for the wealthy. In fact, the complications and sudden expenses of unexpected death can unfortunately mean your family may be unable to afford to *not* have a life insurance policy.

Mistake #2: Relying entirely on an employer-sponsored life insurance policy. While it is convenient, opting to utilize only the group life insurance policy through work will almost certainly not provide you with enough coverage. Unlike traditional life insurance, group life insurance disbursements over $50,000 can be considered taxable income, and your loved ones will have to make do with less after taxes. Group life insurance also does not provide coverage if you change jobs, experience unemployment, or must leave your position due to illness.

Mistake #3: Purchasing inadequate coverage. People often prioritize their discretionary spending over insurance coverage when making their budget, which can lead to insufficient funds being used for insurance. Review your budget and determine if the amount of coverage you've chosen is enough for your family's needs and if you can afford the difference in premiums for better coverage.

Mistake #4: Choosing the wrong type of insurance. There are significant differences between term and whole life insurance, and these differences can affect the affordability, length of coverage, tax implications, versatility, and customization of your policy. Review any policies you have and make sure they still meet your needs. If not, they may be convertible and will allow for you to work with your agent to adjust the policy to better suit your circumstances.

Mistake #5: Not updating your beneficiaries. A lot can happen in just a few years; and if you do not make a habit of reviewing your beneficiaries on a regular basis, there is a chance they no longer match up with your wishes. This is especially true if there has been a divorce, birth, death, or family dispute in recent years. Beneficiaries on life insurance policies generally override wills, so keeping this up-to-date is particularly important. Include contingencies in case your primary beneficiary passes away or if one or more of your beneficiaries is a minor and will need a guardian or trust to handle disbursements until they become legal age.

Mistake #6: Not seeking professional advice. Life insurance can be complicated, and to ensure you have not overlooked something important, such as the tax implications for your loved ones, it may be wise to consult with a licensed professional. This will allow for peace of mind that you have selected the best policy for your family's needs. ❍❍❍

5 Steps to Create an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your investment plan.

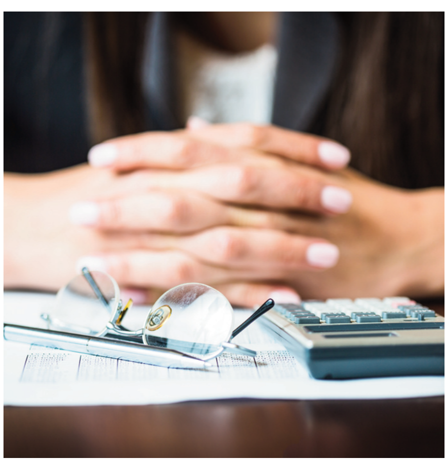
1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with that money?" For example, you might invest to fund a child's college education, retire comfortably, buy a house, start a new business, leave a charitable bequest to a favorite cause, or pay for a wedding.

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. Making these estimates can be challenging, but it's an essential investment planning step. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, establish your time frame for investing. Typically, your goals will fall into one of three categories:



- ✔ **Short term:** Short-term goals are those you expect to achieve in five years or less.
- ✔ **Mid term:** Mid-term goals are those you expect to achieve in five to 10 years.
- ✔ **Long term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing time frame has a direct relation to the investments you'll choose. Generally, the shorter your time horizon, the less risk you want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less-risky investments like bonds will likely make up a larger portion of your portfolio. But if you're investing for the long haul (for a retirement that's 30 years away), you can invest in higher-risk investments, since you'll have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and time frame, as well as your experience with investing and feelings about the possibility of losing money.

4. Decide How Much to Invest

Once you've considered your time horizon, goals, and risk tolerance, you can consider how much to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

Once you have the funds for your initial investment, you'll need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, investment goals, and time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy. If you want to buy a home in five years, you might open an account with $2,000 you've already saved and then invest $400 a month for the next five years.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you'll need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you can expect to live, the impact of inflation, and money you'll receive from other sources like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and time frame will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or a money market fund for short-term goals. But if you're baffled by all the options, it's always a good idea to seek a second opinion. Please call if you'd like help with your investment plan. ❍❍❍

Silver Linings, Winnie The Pooh and Pots at Rainbow's End

Every morning, I read both the Wall Street Journal and The Financial Times and, weekly, The Economist. I like to read my news because broadcast news depresses me. But even reading the news has become a downer. It seems harder to find silver linings.

It has been documented (by The Economist, Journal and Financial Times) that political polarization is at an extreme. Surely that is a part of it, but it is not just that. For example, it seems extremely disconcerting that one of the nuclear disarmament pacts between the U.S. and Russia was just torn up and that had nothing to do with political polarization in the U.S.

In the serenity prayer, we pray for the serenity to accept the things we cannot change. That helps.

Instead of reading these financial papers, maybe we should start reading children's books again, even if your children are grown up like mine. This is from A.A. Milne's ***Winnie The Pooh***:

"What day is it?" asked Pooh

"It's today," squeaked Piglet

"My favorite day," said Pooh.

I have never been able to find the pots of gold at the end of any rainbows, but I did find something that made me feel much better about the world in a book called ***Factfulness***, by Hans Rosling. The subtitle of the book is ***Ten Reasons We're Wrong About the World — and Why Things Are Better Than You Think.*** I thought I would share part of it with you so that perhaps you too, might feel better.

Rosling had a questionnaire which made his point. I will share part of it here:

1) In all low-income countries across the world today, how many girls finish primary school?

A) 20%
B) 40%
C) 60%

2) Where does the majority of the world population live?

A) Low-income countries
B) Middle-income countries
C) High-income countries

3) How did the number of deaths per year from natural disasters change over the last hundred years?

A) More than doubled
B) Remained about the same
C) Decreased to less than half

4). How many of the world's 1-year-old children today have been vaccinated against some disease?

A) 20%
B) 50%
C) 80%

5). Worldwide, 30-year old men have spent 10 years in school, on average. How many years have women of the same age spent in school?

A) 9 years
B) 6 years
C) 3 years

6). In 1996, tigers, giant pandas and black rhinos were all listed as endangered. How many of these three species are more critically endangered today?

A) 2
B) 1
C) None of them

7). How many people in the world have some access to electricity?

A) 20%
B) 50%
C) 80%

8). In the last 20 years, the proportion of the world population living in extreme poverty has…

A) Almost doubled
B) Remained more or less the same
C) Almost halved

Answers: 1 - C, 2 - B, 3 - C, 4 - C, 5 - A, 6 - C, 7 - C, 8 - C

If you are like me, you were pleasantly surprised by the answers. Oh, and there is a lot more good news in the book. Rosling is not the only optimist. Steven Pinker has collected good news in his latest book, ***Enlightenment Now***. He reports that the number of homicides in the U.S. has been halved since 1965, that people get more schooling and have higher IQs throughout the world when compared to even just 30 years ago, and that there are fewer wars at any given time now than ever before, as measured by human lives lost.

If you stop and think about it, we have greater access to news now than ever before, but for some reason, negative news sells the papers and gets the clicks. As a result, we are now more exposed to bad news than ever before. This is why we should take the time to find some good news.

The financial writer Morgan Housel has observed that while pessimists sound like they are trying to help you, optimists sound like they are trying to sell you something.[1] I am not selling anything here, but have noticed that bad news can carry over to investors' attitudes toward their money. One study showed that Republicans are more bullish now and Democrats are less bullish now, and that it was vice versa during the last presidency. That is one of the things we cannot change.

Further, I have noticed that clients who are going through a bad time, even when the source of the trouble would have no impact on their financial well-being, have a tendency to invest in a more pessimistic way.

I don't believe that you need to be an optimist to be a successful investor and I am not trying to convert you. Some of my favorite people are never happy unless they are unhappy about something. But the pessimism is high, and that seems regardless of political leanings. So let me close with this, which I mean from my heart, but are words from ***Charlotte's Web***, by E.B. White:

You have been my friend. That in itself is a tremendous thing.

I wove my webs for you because I liked you.

After all, what's a life anyway? We're born, we live a little while, we die.

A spider's life can't help being something of a mess, with all this trapping and eating flies.

By helping you, perhaps I was trying to lift up my life a trifle.

Heaven knows anyone's life can stand a little bit of that.

Sincerely,

John B. Burke

John B. Burke, MS, CFP®
Financial Advisor

[1]Enlightenment Now, Steven Pinker. Page 49.

Raymond James is not affiliated with any of the above-mentioned book authors.