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APRIL 2021

Leaving a Legacy

Many of us want to do our part to leave the world a better place. Below are five different ways you can leave a financial legacy.

1. Give gifts in your lifetime. If you have the financial freedom to do so, making financial gifts while you are still alive is a great way to leave a legacy. Money you donate to qualified charitable organizations can be deducted from your taxes, saving you money while also helping you support a good cause. If you want to leave a family legacy, consider giving gifts to loved ones while you are living, like helping pay for your grandchild's college education. Just make sure you're aware of annual limits on what you can give to individuals without triggering gift tax ($15,000 per person in 2021).

2. Make a bequest in a will. Many people use their will to make philanthropic bequests, leaving funds to their favorite charity, alma mater, or church. For people who have money to give, recognizing an organization in their will is a relatively easy way to leave a legacy. Bequests in a will don't require any additional planning and are exempt from estate tax, provided the recipient is a qualified charitable organization. However, if you plan to make a substantial bequest to a charity, you may want to inform them of your plans in advance. This is particularly important if you plan to donate physical property, like real estate or artwork, as not all charities will want or be able to accept such donations, or if you plan to place restrictions on how the gift is used.

3. Create a charitable remainder trust. If you would like to make a substantial gift to a charity but also

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Managing Life's Risks

In addition to accumulating wealth, you also need to ensure your wealth is adequately protected from the risks everyone faces in life: death, property damage, illness, income loss, and property theft. Any one of these may result in considerable financial loss. Follow these four steps to help manage risk:

1. Identify, analyze, and measure possible risks. Consider all risks to your life, health, property, earning capacity, and financial assets. Prepare an inventory of your property, and list all assets and their value. This inventory will help you decide how much insurance you need and help establish proof of loss when you make a claim.

2. Select the risk management technique. Once you identify potential risks, you must decide how you want to handle these risks. There are five possible actions: avoid the risk, reduce the risk, reduce the potential loss, retain the risk, or transfer the risk.

3. Implement the risk management techniques. Once you decide how to deal with each risk, it is important to follow through and apply those techniques.

4. Periodically monitor your risk management program. Changes in your personal circumstances will necessitate changes in how you deal with certain risks.

Please call if you would like to review your risk management program. ❍❍❍

Leaving a Legacy

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want to provide for your heirs or continue to receive income during your lifetime, a charitable remainder trust (CRT) may be an option. Here's how it works: You transfer property to the trust (and get a tax deduction at the time of the transfer), and you or your heirs receive income from the trust for a specified period of time. Then, when that period ends, the remaining assets go to the charity of your choice. A word of caution: CRTs are irrevocable, which means once you've made this decision, you can't reverse it.

4. Set up a donor-advised fund. Know that you want to leave money to a charity, but not ready to hand it over just yet? Consider setting up a donor-advised fund. A donor-advised fund allows you to make contributions to a fund that is earmarked for charity and claim the associated tax deduction in the year you contribute the funds. You continue to make more contributions to the fund, which are invested and grow free of tax. Then, when you are ready, you can choose a charity to receive all or some of the accumulated assets. It's a great way to earmark funds for charity now while also accumulating a more substantial amount of money to leave as a legacy.

5. Fund a scholarship. Endowing a scholarship is a great way to make a difference in the life of a talented student. Here's how it typically works: You give a certain amount of money to the school of your choice, which earmarks it to fund scholarships, often for certain types of students (e.g., female math majors, former foster children, or people suffering from a certain disease). Other scholarships are established through community foundations. A seed gift of $25,000 or $50,000 may be enough to get started. Be aware, however, that while you may be able to have a say in selection criteria for the scholarship, there's a good chance you won't be able to select the recipient yourself. If you want to do that, you'll need to distribute the money in another way, perhaps by setting up your own nonprofit organization.

6. Start a foundation. Starting a family foundation is appealing to many, especially those who like the idea of having greater control over how their money is used as well as the prestige that comes with running a foundation. Well-managed private foundations can also endure for many generations after you're gone. But you'll need substantial assets to make setting up a foundation worth it. Plus, foundations are complicated and expensive to set up and administer. But, if you are committed to the idea of giving back, and especially if you want to keep the entire family involved in giving (a concern for many wealthy families), a private foundation could be the way to go.

Curious about steps you can take to leave a meaningful legacy? Please call to discuss this topic in more detail. ❍❍❍

How Much Should You Save in Your 401(k) Plan?

To make sure you're on track for retirement, you should have an idea of how much you need to set aside to reach your retirement goal.

Know Your Limits — Before you come up with an annual savings target, it's important to understand how much you're allowed to contribute to a 401(k) plan. In 2021, workers younger than 50 can save $19,500 in a 401(k), 403(b), or similar plan, while those age 50 and older can save $26,000 annually, an extra $6,500 per year.

Contribution limits usually go up slightly every year; if you're an aggressive saver, you'll also want to pay attention to that and adjust accordingly.

At a Minimum, Get Your Match — The first rule of 401(k) plans is to save enough to get your full employer match. You've probably heard it before, but not contributing enough to get your employer's matching contributions is like leaving free money on the table. Even if you're not impressed with your company's 401(k) plan and would prefer to save in some other way, it still makes sense to at least get that free money.

But How Much Do I Really Need? — So you know how much the government will let you save and that you should be contributing enough to get your employer match. But how much should you be setting aside to prepare yourself for a comfortable retirement? That's the ultimate question.

Unfortunately, there's no magic number because every individual situation is different. People have different tolerances for risk, market performance varies over time, and everyone has their own idea of an ideal retirement. That's why it's best to talk to a financial advisor who can help you determine how much you need. But in the meantime, there are a few rules of thumb that may help you get a sense of where you stand.

One guideline suggests saving a certain percentage of your salary every year for retirement. Between 10% and 15% is usually the recommended number. If you started saving when you were young, your target savings percentage is usually lower, but if you procrastinated, you're more likely to be looking at having to save 15% or even 20% of your pay to get you on track to a comfortable retirement. The good news is that your employer match counts in that number, so if your goal is to save 10% and your employer match is 5%, you only need to save 5% of your pay. ❍❍❍

Money Personalities and Saving

Everyone approaches their finances differently, but there are common mistakes that certain money personalities make. The following highlights five different money personalities, the mistakes they make, and how they can improve their financial picture.

Entrepreneur

Because they put all their financial resources and energy into their business, entrepreneurs may make mistakes such as cashing out their retirement plans to fund their business, holding too much debt, or even getting behind on self-employment taxes.

Entrepreneurs would be best served by developing a business plan with income and expense projections to ensure they use debt wisely to fund their business. They should also make contributions to a retirement plan annually, even if it's only a few thousand dollars. And finally, entrepreneurs should work with a tax professional to help reduce their taxes as much as possible, while making sure quarterly tax payments are made.

The Saver

This is the person who follows all the rules and does it just right. They fully fund their retirement accounts each year, don't carry much debt, and have plenty of savings in the bank for any unexpected expenses. While this money personality may get to retire early, they may want to stop and smell the roses once in a while.

The High-Income Earner

Professionals, such as doctors and lawyers, fall into two groups: savers and spenders. Those who fund a large lifestyle may find they have trouble funding their retirement because they've spent too much.

Big earners need to develop a financial plan so they understand how much money they will need to fund their retirement based on the lifestyle they want to live. They should also pay themselves first with a predetermined amount to saving, before buying nicer cars or bigger houses, as well as considering setting monthly spending limits.

I Need to Save?

This money personality spends their paycheck as soon as it hits their account, and in some cases, live beyond their means. They have no savings if an unexpected emergency comes up, and they are likely carrying too much debt. To be able to retire, this person needs a financial plan with a strict budget to help pay down debt and develop both long- and short-term savings.

Doing Fine and Enjoying Life

This person saves and spends. They want to enjoy life experiences along the way to retirement, such as vacations, maybe a boat, or a cabin. While they contribute to their 401(k) plan, they may not have a financial plan that includes short-term financial goals and how much they need to save for retirement.

While it is great that this money personality saves, they need to ensure that their spending isn't outpacing their savings. By developing a solid financial plan, this money personality can create a more balanced approach to saving and spending.

What's Your Money Personality?

You should determine where you fall on the spectrum of money personalities so you can develop a financial plan that suits your personality, but also helps you secure your future. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Bulls, Bears, Pigs and Dogs

The cliché "the early bird gets the worm" is a justification for getting up early — or is it? How did getting up early work out for the worm? "Your Waterloo" is a way of referring to your demise — but why? While the battle of Waterloo was Napoleon's demise, Waterloo represented a career defining victory for General Arthur Wellesley, otherwise known as the Duke of Wellington.

Investing in stocks is like that, only worse. Many of the clichés about investing are not only wrong, they lead investors to bad decisions. For example, stating that "no one has ever lost money taking a profit," which we have heard far too many times, can lead to high portfolio turnover and higher taxes. It can also lead you to sell your best stocks. In this piece, we explore investing clichés that we would like you to forget.

1) "Bulls make money, bears make money, pigs get slaughtered." — Similar to the example in our introduction, this cliché leads to higher turnover. The cliché is an indictment against those who hold on to their winners. Taxes on capital gains are paid when stocks are sold, but there are no taxable gains at all if the stock is left as part of your estate. High turnover can cause higher taxes. Our most important point, however, is that what you paid for a stock is not all that relevant (and perhaps completely irrelevant) in a tax deferred account. Having a gain or loss is not any type of an indicator that the stock is overvalued or undervalued. Stocks should be evaluated based on their financial performance or the prospects for the company's product or service going forward.

2) Farm animals seem to get a bad deal from clichés. Dead horses get beaten. Two birds get killed with one stone. Dead cats get bounced. And bad stocks are called dogs. Are those dogs worth selling? A recent study out of MIT indicated that investment professionals are bad at determining which stocks to sell. The time investors spend selecting stocks to buy is far more than that spent on the sell decision. Often, a stock is sold because it looks bad in the portfolio, showing a loss and reminding you of the bad decision to buy it when you did. That sort of thinking is emotional. Instead, the MIT researchers found that sell decisions made in conjunction with an earnings report tended to be better decisions. That is, a bad earnings report is a better signal than a poorly timed buy. Sometimes the stocks with gains are the ones that report bad earnings.

3) Speaking of bulls, the terms "bulls" and "bears" are sort of clichés themselves. Where did the terms come from? One response to an internet search attributes these terms to the fact that bulls thrust their horns up while bears swipe down. This is not true, which we know because the trader/writer Daniel Defoe wrote about bears in 1726 after the South Sea Bubble scandal. Bear traders were sometimes said to sell the skin before capturing the bear. That is, they get ahead of themselves in their analysis, leading to losses. In any case, the connotation is clearly bad. The "bull" term's origins are far less clear. We believe that the media's constant attention to labeling investors as bulls or bears leads too many investors to think that they should think of the market as something to get in and out of. We think investors should own stocks for long periods of time, perhaps passing them on to their next generation, and invest in stocks with which they are comfortable enough to do just that.

4) As this is our April newsletter, we can't ignore the well-worn phrase "sell in May and go away." This is an easy one. The statistics simply do not back up this theory of selling for the summer and buying back in the fall.

5) Analysis of investment thoughts and trades of Warren Buffett have become tiresome, or rather, Warren Buffett is a cliché. Mr. Buffett has not been a good stock picker in a long time. Most of his success came from one of two insightful strategies. The first was that he figured out that companies with good brands were undervalued because accountants only valued equipment and inventory, ignoring the value of the brand. The second is that he realized companies with large cash balances, like insurance companies, were excellent takeover candidates, knowing that the cash balances could earn better returns with his investment acumen. These are no longer secrets. His stock picks have underperformed for many years now for the simple reason that he got away from his strategies. Dexter Shoe, ConocoPhillips, The Washington Post, and the UK grocer Tesco were all notoriously bad investments for Buffett, and none was a large brand generating great cash flow.

6) "It's a stock-picker's market." — The danger in this cliché is that it implies there are certain markets in which you can pick stocks and easily "beat the market," and there are certain markets where you cannot easily beat the market. The overall market is a good investment, in and of itself, and we don't think it is such a bad thing to invest in the broad market. Over the last 20 years, the most commonly quoted broad index, the S&P 500, has grown by 6.2% per year, or about 8% per year with dividends. We happen to think that buying the 500 largest U.S. stocks is too simple of a strategy. We prefer to winnow out the riskier stocks, and to focus on companies with consistent revenue growth, profitability and balance sheet strength.

7) "Kicking the can down the road." — This cliché is another that makes little sense. If one comes across a can on the road, we'd think that few would choose to keep kicking it down the road for lack of decisiveness. But this is the predicament that investors put themselves in when they choose to raise cash or get out of the market. Given that stocks go up about 70% of the time, when you get out of the market out of fear or to take profits, you will more often than not find yourself in a position of buying higher than where you sold, or choosing to defer the buy decision ever further into the future. We'd rather adopt the buy and hold approach from the start.

8) While we are on the topic of procrastination, let's all laugh at but ignore many of Mark Twain's investment insights like "October, this is one of the peculiarly dangerous months to speculate in stocks, the others being [and he names all the rest]." Mark Twain was a great author, but he lost money on a magnetic telegraph, a steam pulley, on the Fredonia Watch Company and on railroad stocks. He lost so much money that in 1891 he was forced to move the family out of their Hartford home.[1] Celebrities are rarely good sources of investing advice.

9) "Even a broken clock is right twice a day." — It has been reported that there was only one famous investor who predicted the crash of 1929, and that was Roger Babson. Babson also predicted the crash of 1928, 1927, 1926, well, you get the idea. We have our own Babsons, such as Noriel Roubini and Jeremy Grantham. Bad news sells, and the media can always find an expert who can get you worried. There is ALWAYS something to worry about if you choose to do so.

We'd like to close by quoting some wisdom that we wish would turn to cliché. President Dwight Eisenhower once said that "what is important is seldom urgent and what is urgent is seldom important."[2] We think you should leave the investment worries to us while we develop a long-term strategy, both for your finances and your investment portfolio.

Sincerely,

John B. Burke

John B. Burke, MS, CFP®
Financial Advisor

[1]Time Magazine, April 19, 2016, Richard Zacks.
[2]The Economist, February 27, 2021, How to Make Sparks Fly, page 11.