Insights & Outlook

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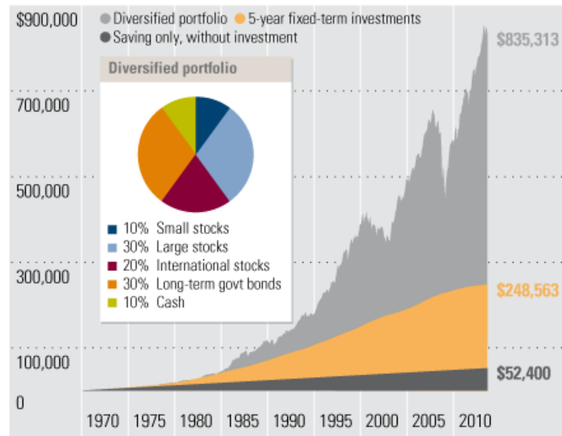
Saving Is Not Enough

After two financial crises occurring almost back to back during the "lost decade," investors have every right to be risk-averse, hesitant, angry, or distrustful. The problem with not investing at all, however, is that you may not have sufficient money to achieve your financial goals. An individual saving $100 per month, without investing, would have put away only $52,400 since 1970. By placing that money in five-year fixed-term investments, the investor would have been able to end up with almost five times that amount. And if invested in a diversified portfolio, our investor's savings would have grown to $835,313. It's true that any investment involves varying levels of risk. But, as the image illustrates, even if you have low risk tolerance, you can find a suitable investment for your needs that may still be much better than no investment at all.

Two Types of Investments Versus Saving Without Investment, Jan 1970–Aug 2013

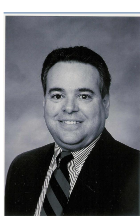


Past performance is no guarantee of future results. This hypothetical example is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. The diversified portfolio was created for illustrative purposes only; it is neither a recommendation, nor an actual portfolio. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Diversification does not eliminate the risk of experiencing investment losses. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Source: Small stocks—Ibbotson® Small Company Stock Index. Large stocks—Standard & Poor's 500®, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) index. Long-term government bonds—20-year U.S. government bond. 5-year fixed-term investments—yield on a 5-year U.S. government bond. Cash—30-day U.S. Treasury bill.

Mezzasalma Advisors

Advisor Biography



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John has been in the tax and financial services industry since 1976 and is a member of The Institute of Certified Financial Planners, The NJ CPA Society and his local chapter of Lions Club International, where he currently serves as their treasurer.
He has been a Certified Public Accountant (CPA) since 1978 and a Certified Financial Planner (CFP®) since 1990.
John specializes in developing financial strategies for physicians, business owners and high net worth individuals. He is also an expert on Income Tax savings strategies for physicians.
John has received numerous awards such as: Five Star Wealth manager (multi year recipient); The National Quality Award; The Oppenheimer President's Council.
Community Service: He currently serves as treasurer of his church and the local chapter of the Lions club where he earned the "Lion of the Year" award for his service.

Personal: He has 3 children and 8 grandchildren. Both his sons are CPAs and one, Anthony, is now part of the firm.

Financial Planning for Women

Financial planning may present different challenges for women as opposed to men for various reasons. Knowing these challenges, when and if they are likely to occur is crucial for women to successfully manage income, expenses, retirement planning, college planning for children, and any other money matters that need attention.

Challenge 1: Women tend to live longer than men. According to 2009 data from the Centers for Disease Control, remaining life expectancy for a 65-year old woman is 20.3 years, as opposed to only 17.6 years for a 65-year-old man. This may mean that not only do women need to accumulate more assets for retirement, but also that they need to manage these assets much more carefully in retirement in order to make them last for a longer period of time. It is, therefore, paramount for women to begin contributing to a retirement account as soon as possible. According to the Department of Labor's "Women and Retirement Savings" publication, only 45% of the 62 million women (age 21 to 64) working in the United States participate in a retirement plan. This is probably one of the worst financial-planning mistakes you can make. If your workplace offers a 401(k) plan, you should start contributing as soon as you receive your first paycheck, and make sure you're contributing enough to take advantage of the employer match.

Challenge 2: Women are more likely than men to work part-time, which means they may not be eligible for benefits (such as retirement-plan participation). If a 401(k) isn't an option, consider an Individual Retirement Account (IRA) instead. A traditional IRA gives you the benefit of tax deferral, meaning that your assets will be able to grow tax-free until you begin withdrawing in retirement. A Roth IRA is not tax-deferred, but may offer other advantages. Conduct the necessary research and consult a financial advisor to determine which type of retirement account is the best option for you.

Challenge 3: Women, in general, earn less than men. Median income for men was $48,202 in 2011, compared with only $37,118 for women (Current Population Reports: Income, Poverty, and Health Insurance Coverage in the United States, September 2012, U.S. Census Bureau). This also puts women at a significant disadvantage financially, especially if they're single, widowed, or divorced and don't enjoy the security of a dual-income household. Precisely because they earn less, women have to be more disciplined about saving and investing. Make a realistic budget to assess your financial situation. Control your expenses as much as you can, and invest the rest. No matter how tiny it may seem, every little dollar you put aside today counts.

Challenge 4: Women tend to take more breaks from the workplace and have shorter job tenure, since they are most often the primary caregivers for children and also elderly relatives. This makes it difficult to get back into the workforce (and at the same pay level). The most important thing is safeguarding your retirement savings. No matter how tempted you might be, do not cash out your 401(k). If you do, you will not only pay taxes, but you'll also incur early-withdrawal penalties. Instead, consider rolling your 401(k) over into an IRA, and do the necessary research before you begin this process.

401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. Investing in securities always involves risk of loss, including the risk of losing the entire investment.

Financial Experience and Behaviors Among Women

The 2012-2013 Prudential Research Study "Financial Experience and Behaviors Among Women" surveyed 1,410 women about their financial knowledge, actions, and confidence in attaining their financial goals. In general, women face particular financial challenges because they tend to live longer than men, earn less, and take more breaks from the workplace.

On the positive side, the study shows that women, although severely hit by the slow economic recovery, remain positive about the future. However, women also feel they lack knowledge about financial products, feel less confident about retirement, and don't see themselves as well-prepared to make financial decisions. For example, the study found that 26% of women surveyed did not understand IRA plans too well, which is worrisome given that IRAs are important tools of a sound retirement-planning strategy. According to the Department of Labor's "Women and Retirement Savings" publication, only 45% of the 62 million women (age 21 to 64) working in the United States participate in a retirement plan. Here are a few guidelines that women might want to consider to get back on track.

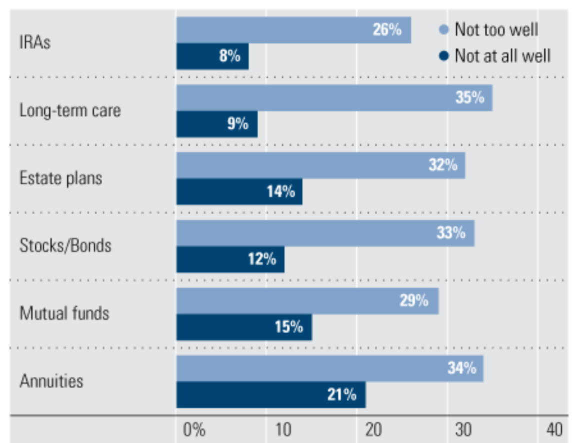
Manage Credit-Card Debt: This may sound like a no-brainer, but if most of your money goes into paying interest and penalties every month, you won't have much left to save. When you receive your bill, pay the balance in full, or as much as you can, instead of just making the minimum payment. Always do your best to pay on time, and try to keep as few credit cards as possible (the more you have, the more you'll be tempted to spend).

Contribute to a Retirement Plan, Now: If you are working, ask if your workplace offers a retirement plan. If the answer is yes, you should start contributing right away. No matter how little you set aside every month, these savings will grow over time. Another good question to ask is whether your employer offers a match on your contributions. For example, an employer can match up to, let's say, 3% of your salary if you contribute that 3% to your retirement plan. This is, technically, free money that you're turning down if you're not contributing. If your workplace doesn't offer a retirement plan, you can still contribute to an Individual Retirement Account (IRA).

Know Your Options: It's never good to think about the worst-case scenario, but women who become divorced or widowed may face financial difficulties on their own. Women should ask questions about the division of retirement benefits in case of divorce and eligibility for Social Security benefits in case of a spouse's death.

Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation.

Female Breadwinners Lack Knowledge of Financial Products

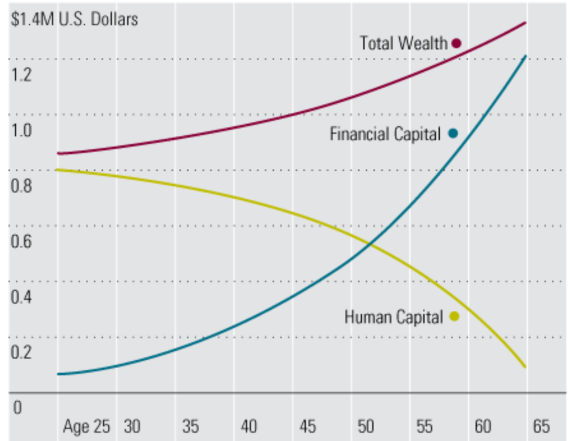


Source: "Financial Experience and Behaviors Among Women", 2012-2013 Prudential Research Study, July 2012.

Understanding Financial Capital and Human Capital

When calculating total wealth, it is important to consider not only financial capital, but human capital as well. Financial capital refers to an individual's total saved assets, while human capital refers to the individual's future potential savings from income earned. Looking at financial capital in isolation for retirement planning is incomplete without also considering human capital. Initially, an individual has higher human capital and lower financial capital. Over time, accumulation in savings increases financial capital, while human capital declines as the individual reaches retirement. Certain life events trigger significant changes in financial capital, such as receiving an inheritance, and in human capital, such as going back to school or receiving a promotion at work. Individuals should keep this in mind when planning their financial goals.

Financial Capital, Human Capital, and Total Wealth Over Time



Source: Roger G. Ibbotson, Moshe A. Milevsky, Peng Chen, CFA, Kevin X. Zhu. Lifetime Financial Advice: Human Capital, Asset Allocation, and Insurance, Research Foundation of CFA Institute, 6 April 2007.

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