LET'S TALK MONEY®

January/February 2021

Avoid a Spending Hangover

The holidays are behind you, but chances are paying the bill is not. Starting the New Year with a thoughtful spending plan can help you make progress throughout the year. Include your entire family in the process to help ensure they are on board with this goal.

Plan in Advance

Planning for holiday shopping should be part of your regular budget. Starting with last year's spending history, document necessary expenses such as mortgage, insurance, transportation, food, utilities, etc. Determine where you might be able to cut expenses. Subscriptions, dining out and convenience purchases, such as coffee should be considered. Then add savings goals and some disposable income. Be sure to save monthly toward holiday spending, so you won't have to rely on credit.

Track Every Dollar

Now work the plan. The key to successful budgeting is recording all your expenses. Choose a recording system that works best for you. Electronic methods like a spreadsheet or bookkeeping software will allow you to create reports to easily summarize your monthly and yearly progress. There are several online options, that can connect directly to your bank accounts. Choose a system that will be easy for you to stay faithful in updating your spending.

At the end of the day place all receipts in a designated space. Don't forget to hang on to receipts for cash purchases.

Remember that creating a budget isn't very helpful if you don't track how much you spend. So log your receipts regularly to update your spending against your budget. Monitor your savings goals, too. Update your records weekly or monthly and you'll be grateful for these routine updates at the end of the year when it's time to prepare next year's budget.

Get a Checkup

To increase your chances of success, scrutinize your progress each month—not any longer than that—and share what you've learned with family members. Together you can review where you could improve and encourage everyone to keep a lid on impulse spending. Staying on track will result in less stress and no spending hangover after the holidays next January!

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Getting FIRE'd?

FIRE stands for Financial Independence, Retire Early. It's a financial movement growing in popularity as more and more people seek to eliminate debt and build savings so they can retire earlier than usual. Regardless of your target retirement date, this movement focuses on some smart financial strategies:

Reduce

One of FIRE's focus is on eliminating all debt and reducing expenses. Paying off debt is the first step with a focus on not accumulating new debt. Start by scrutinizing how you spend your money to identify unnecessary expenses.

Increase

FIRE followers also look for ways to increase their income. Things like switching jobs for a significant pay increase, working side gigs or generating passive income from owning rental property add money toward the early retirement goal.

Invest

The last tenement of FIRE involves sound investing strategies. Start by maxing out retirement plan contributions. And if your employer offers a matching contribution, be sure you're saving at least the minimum amount to get the maximum contribution.

Pay Off Your Debt

Paying off your debt is a liberating feeling. If your New Year's resolution is to become debt-free, consider using one of these debt payoff strategies to achieve your goal.

Snowball

The snowball method involves paying off your smallest balance first. Start by paying the minimum on all but the smallest balance on which you pay as much as you can afford until it's paid in full. Then roll that amount into the next debt on your list.

Avalanche

The avalanche method is similar to the snowball method but has a different focus. The goal is to pay the least amount of interest. Whereas the snowball method doesn't consider interest rates when prioritizing debts, the avalanche method works to pay off the debt with the highest rate first. Make your list of debts and include the interest rates for each one. You'll use the same payment strategy as with the snowball method, except you'll pay off debt with the highest interest rate first.

Consolidation

Debt consolidation works to combine multiple debts into one. Generally, debt consolidation aims to reduce your monthly payment and may or may not decrease your interest rate. If you're considering debt consolidation, be sure to calculate the total interest you'll pay under the new loan versus the old rate.

Credit Card Lures

Credit card companies attract new customers with enticing offers. If you've recently received an offer, beware of these pitfalls.

- **0% Interest Rates**
  That 0% interest rate may be for a limited time so if you fail to pay the entire principal balance by the end of the introductory period, you'll be charged interest.

- **Sign-on Bonuses**
  Often a bank will offer a cash sign-on bonus if you make certain purchases. Maybe you'll have to spend $2,000 in the first three months. However, the bank is counting on you not paying the balance in full so they can collect interest. Any sign-on bonus you receive may be less than the interest you pay.

- **Annual Fees**
  Many of the points, miles or cash back cards have an annual fee. While it might be tempting to get that card with 2% cash back on every purchase, you'll need to spend $4,750 each year to earn enough cash back to cover the cost of a $95 annual fee.

A Challenging Tax Year

Another tax year is in the books and what a year is was! Preparing to file income taxes is likely to be more challenging this year with all the changes.

- For starters, many Americans' personal situation have changed due to the pandemic. For example, those who collected unemployment compensation should receive a Form 1099-G from the state. Both federal and state unemployment compensation is taxable as ordinary income. Sadly, COVID took many lives and that may have an impact on a spouse's tax return.

- Business owners that took advantage of government aid need to demonstrate compliance. Also, losses due to temporary or permanent closures may create entirely different tax scenarios.

- Congress passed many tax changes for 2020, most designed to help save taxpayers money. These changes are too numerous to detail here, but the takeaway is that this year, you'll want to consult your tax professional for assistance with filing your taxes so you get the best possible results.

- Meanwhile, some rules remain the same. Remember, you have until April 15, 2021 to make potentially deductible contributions to your IRA for 2020. You can contribute $6,000 if you're under 50 and $7,000 if you're 50 or over for 2020.

Minimum Payment Calculator

Credit card balances are expensive. Consider how much a $1,000 purchase on a credit card charging 20% interest will ultimately cost you and how long it will take to pay it off. *

MONTHLY PAYMENT	NUMBER OF PAYMENTS	TOTAL COST
$25	127 Months	$2,197.08
$50	60 Months	$1,417.95
$100	32 Months	$1,185.47

**https://www.bankrate.com/calculators/credit-cards/credit-card-minimum-payment.aspx*
This is a hypothetical example. It is not representative of any specific investment strategy or combination of investment strategies. Actual results may vary.

Economics 101

The trillions of dollars spent by the government in 2020 to help offset the impacts of the coronavirus pandemic, has raised speculation as to how it will impact the U.S. economy in the short- and long-term. Economists often mention terms such as inflation, deflation, and hyper-inflation. We'll explain what these terms mean.

Inflation

When too much money chases too few goods, we have inflation. Inflation happens when prices increase due to high demand and either a decrease in supply or a supply that doesn't keep up with demand.

With the multi-trillion-dollar stimulus packages pumping money into the economy, this new infusion of cash could lead to an increase in demand. Typically, excess money means more people are going to spend. Inflation can be slowed or avoided if the excess money is saved and not spent.

Inflation isn't entirely bad unless it happens quickly creating hyper-inflation.

Hyper-inflation

When prices of goods and services increase significantly and quickly, hyper-inflation happens. This devalues currency and if severe, some people may trade other things of value instead of currency. This could be livestock, gold or other goods or services that are easily traded.

Hyper-inflation usually results when a government incurs financial or political stress. Wars and declining tax revenue are some of the culprits. Zimbabwe incurred hyper-inflation in the early 2000s when the government printed more and more money in an attempt to finance a war with Congo and meet the demands of high unemployment which decreased tax revenue and consumer demand.

Deflation

The opposite of inflation is deflation. This is when prices decrease usually due to an excess supply of goods and a decreased demand for those goods. Deflation can also happen when there is a decrease in the money supply from a reduction of debt availability (banks aren't lending or are making it more difficult to obtain a loan) or when there is a cash outflow from an economy (investing in foreign markets instead of domestic investment).

While the U.S. economy remains healthy, understanding these basic economic principles can help you to better understand what economists are saying.

We Value Your Input...

Your feedback is very important to us. If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

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Reviewed by,

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