Are You Well?

LIKE FATHER, LIKE SON. In May, my son Charlie anchored his high school's 4x800 relay team during the state championship track meet. When the third runner handed him the baton, they were in sixth place. When he completed his two laps, they were in third. They broke a school record and made the medal podium for the first time in the event. His split time would have won the state championship in the individual race by almost two seconds.

Many who know me well are now wondering what I am talking about with the like-father-like-son stuff? When I ran, my coaches would put away their watches and bring out the sundial…speed is not what my son and I have in common. However, after the race there is a picture of Charlie's teammates on the podium without him, and if you look really hard you can just make out his image behind the podium, vomiting.

That was an annual ritual when I was in high school. Football camp began each and every year with the running of the 800, and every year I would show up out of shape from having fun all summer and would have to push myself to make the required time for my position group, which I always did… then I would go under the bleachers and puke. My brother has similar stories, and we joke about the Osborne Puking Gene.

In these cases it comes from pushing ourselves right to our limits, which in Charlie's case was to win a medal. For me, it was because I showed up out of shape. I grew up before the days of "wellness."

Most employers these days have wellness programs. They started largely to give employees an incentive to stop smoking. By quitting smoking, they could save money on health insurance. They quickly expanded to other healthy habits like diet and exercise, again with the incentive to save some money on insurance.

In the last several years this has spread to financial wellness – trying to get employees to improve their financial health along with their physical and mental health. The idea is fantastic, but unfortunately it falls under the category of, "You can lead a horse to water, but you can't make him drink." Cerulli Associates, a Boston-based financial industry research firm, recently conducted a study on financial wellness programs.

Cerulli found that 90 percent of retirement plan providers offer financial wellness programs, and 71 percent of plan sponsors have included these programs in their plans. That is where the good news ends. Fewer than 20 percent of the employees have actually used these programs, and those who have used them do not rate them very well. Only 41 percent say they were helpful, which isn't very good.

It may be helpful to explain what experts mean by financial wellness. In the same way that physical wellness begins with diet, financial wellness begins with budget. No one likes to talk about these things; it is our nature to just want a pill that allows us to eat whatever we want and still be thin. Likewise, we would like to spend on whatever we want and still be financially sound. Unfortunately, that isn't how life works. Being physically healthy starts with a good diet and being financially healthy starts with a budget.

When one is young there is often the idea that if I exercise enough I can eat whatever I like, but as we age, we learn the hard way that one cannot out exercise a bad diet. Similarly, we often think we just need to make more money, but many people learn the hard way that one cannot out earn bad spending habits. Just look at professional athletes. These individuals make millions of dollars while playing their sport, and yet there is nothing more common than the broke former athlete.

If one wants to lose weight, then he must burn more calories than he consumes. Similarly, if one wants to gain financial wellbeing, then he must spend less than he makes. There are no short cuts and no magic pills, and unlike dieting there is no magic shot either. That is the bad news.

The good news is that what is needed is a good diet, but not necessarily a perfect diet. Similarly, we need a good budget, but this doesn't mean the budget has to be perfect. In fact, for the vast majority of us, "perfect" is unattainable and the idea that one must be perfect is what keeps a lot of people from ever trying to be better to begin with. How do we put ourselves on a good budget?

Photo by Kostiantyn Li on Unsplash

The first step is knowing where the money is going in the first place. I served on a board a few years back with a gentleman who would often say, "If you want to improve something, you must measure it." There is a great deal of truth in that. The first step is simply figuring out where the money is going in the first place. This can be done, and has been done for centuries, with pencil and paper. It does not have to be fancy; it just has to work for you. Today we have lots of resources at our fingertips, and there are many budgeting apps that can be put right on your phone. However one does it, this step is necessary. For some this needs to be done only for a few months. Once they see the real picture, they can go from there without tracking every dollar. Others need to continue this indefinitely, it just depends on the personality.

Once the spending has been recorded, then we can make a realistic budget. One should be able to see where overspending is occurring and simply correct by becoming more intentional. The goal of a budget is to calculate how much money one can set aside for her future. Depending on where she is beginning, that could mean debt reduction or it could mean savings and investment. Either way, the point is to determine that number, and once she has it, the next step is to pay herself first. That amount should go towards her future before any other expense is paid. This is step one on the road to financial wellness.

Step two is to build an emergency fund. Why? Because stuff happens. Life rarely goes as planned. There is a horrible statistic from Bankrate which says that 56 percent of Americans lack the ability to pay for a $1,000 emergency. It does not take a lot to have an $1,000 emergency, especially if one owns a house or even a car. How much should one have in savings? We would suggest anywhere from three to 12 months of expenses, and the difference would be based on risk tolerance. If one is on the lower end of this scale, then he may have to tap into longer term investments if a serious emergency were to take place, which is why we consider this part of risk tolerance. I would say that less than three months is probably not enough, and when one gets over 12 months, then she is not allocating her funds wisely. In between those numbers there is no one right answer, it will just depend on the individual.

What if there is a lot of debt? Debt is to the budget what sugar is to the diet. It needs to be kept under control. There are those who claim that no one should ever have any debt, but I do not find that very realistic. Mortgage debt is perfectly reasonable as long as one keeps it well within their budget. Using debt to purchase a car is more debatable; some say never do it, and I certainly understand that. However, it may be necessary or a more efficient use of assets depending on interest rates. There are few things that help a budget as much as not having a car payment.

Today we have to discuss education debt. The cost of education today is criminal. I have written about this before, but if the education industry were any other industry, they would be accused of price gouging, but for some reason we as a society have put up with it because it is education. The truth is there are very few academic degrees worth going into debt to earn.

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REVIEW of ECONOMY

The 1st quarter 2024 GDP growth came in up 1.4 percent, which was slower than we expected. GDPNow shows 1.5 percent growth in the 2nd quarter. Activity has definitely slowed, but we are still growing. We still do not see any signs of recession, but things are not as good as they were last year.

The official unemployment rate was 4.1 percent through June. The labor market remains strong, but this is the first time over the 4 percent mark this cycle. This does not look recessionary but like GDP this does show that growth is slowing.

Inflation is 3.3 percent based on the latest consumer price index report. The progress has predictably gotten slower as we are now near 3 percent. The producer price index, which tracks wholesale prices, is up only 2.2 percent over the last 12 months. +

REVIEW of MARKETS

The market went up, but it narrowed dramatically. For the quarter, the S&P 500 finished up 4.28 percent, and small company stocks represented by the Russell 2000 index were down 3.28 percent. Growth dominated with the Russell 1000 Growth index up 8.33 percent while the value index was down 2.17 percent. For small companies the difference was much less with the growth index down 0.17 percent, and the value index was down 1.69 percent.

Bonds were roughly flat. The Barclays U.S. Aggregate Bond index ended up 0.07 percent. High yield bonds rose 1.09 percent. Bond yields have become more attractive.

International stocks were down slightly. The EAFE index finished down 0.17 percent but the MSCI Emerging Markets index ended the quarter up 5.12 percent. +

MARKET forecast

The concentration in the market is not sustainable. The long-term outlook should involve a broadening of the market. The valuation difference between the large technology companies and everything else must eventually revert to the mean.

AI driven technology still has legs, but the rest of the market should be doing better. International is very attractive from a valuation standpoint and the European economy may have bottomed out. We should see outperformance from overseas.

Bonds still look worthwhile and are behaving like bonds should. Yields are near the middle of their range and should remain fairly flat in the short-term. +

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The biggest debt issue is the credit card. It is often the frequent snacking that ruins a diet, it is almost always the credit card spending that ruins a budget. Credit cards should be paid off in their entirety every month. If one lacks the discipline to do this, then he needs to cut those cards up and close those accounts.

Regardless of the form of debt, one has to balance paying off the debt while building savings. There are pundits out there who preach total sacrifice until the debt is paid off. The problem I see with this approach is that there is a risk of the whole endeavor being broken by an emergency. If one has neglected savings entirely in an attempt to get out of debt quickly, then she risks an emergency which she can only handle by using debt, which is a very discouraging setback. I believe one needs to balance the two and focus on making consistent progress as opposed to obsessing on getting completely out of debt as soon as possible. Don't misunderstand, that is the ultimate goal; However, one did not get into trouble with debt overnight, and one is not going to get out of it overnight.

The next step is to start investing. For most that begins with contributing to their retirement plan at work. If one's employer matches contributions, then she should contribute at least up to that match. The most common example would be an employer who matches 50 percent up to 6 percent of income. Many get confused by percentages, so I prefer to talk in dollars and cents. This means that for every dollar one contributes into the retirement plan, his employer will give him 50 cents. If he does not contribute the full 6 percent, then he is leaving money on the table.

However, that amount is probably not enough to fully realize one's retirement goals. Many experts will say that one has to contribute 15 percent of their income in order to fund retirement; I disagree. I would suggest contributing 10 percent of your income. Of course, there is no such thing as too much money to retire, but I have never had a client who saved 10 percent fall short of retirement. I have had many clients have a non-retirement related goal which they cannot fund because they put all of their investments into retirement. Life happens and to be honest, many people find that retirement is not all it is built up to be.

The key in my opinion is balance. If one can save more than 10 percent, then the excess should probably go into a brokerage account. This may not be as tax advantaged as a retirement account, but it provides the one thing that is often missing in financial plans: flexibility. The future is always uncertain, and it is hard to overstate the value of flexibility.

These are the steps to financial wellness. Like physical wellness, they are more of a journey than a destination. In both cases it is an ongoing process, and there will be setbacks. I no longer get sick every time I run. In fact, this Fourth of July I ran in the world's largest 10K, the Peachtree Road Race. This was my 17th time running. I will freely admit that I was in worse shape this year than I was last year; in fact, I am in the worst shape I have been in years. This past year has been challenging, but that is life. I could beat myself up and just give up, but that is not the best response. Wellness, in all of its forms, is a journey. There will be ups and downs, forward progress and setbacks. When the setbacks happen, we must brush ourselves off and get back on course. I will run the Peachtree for the 18th time next year and I will be better than I was this year. That is what wellness is all about.

Warm Regards,

Chuck Osborne

CHUCK OSBORNE, CFA

AssuredPartners
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