

National Financial Literacy Month: It's All About the Fundamentals

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It doesn't matter if you're talking about basketball or personal finance, fundamentals and consistency matter most over the long run. Golden State Warriors guard Steph Curry is one of the greatest shooters in NBA history, making more than 43% of three-point attempts and 90% of free throws in his career. Those eye-popping stats wouldn't happen if he didn't spend hours every week working on fundamentals. Good habits, like shooting several hundred jump shots a day, improve results. Focusing on the fundamentals and establishing good habits are also the keys to improving your financial outcomes. Understanding basic financial concepts can go a long way toward improving financial literacy and now is the perfect time to start learning. April is National Financial Literacy Month and we'll outline several important principles to help you establish good financial habits and hopefully help improve your decision-making.

A Penny Saved Is a Penny Earned

Saving money is critical to improving your financial situation. Whether you're looking to pay down debt, build an emergency fund, increase retirement contributions, or add to your children's college savings accounts, meeting these goals starts with the decision to save a portion of your income. The exact level you need to save varies by circumstance, but a savings rate of 10% to 20% over a period of several years can materially change most people's finances.

Unfortunately, a large percentage of the population is falling short of that target range. According to the Federal Reserve, 37% of

Americans don't have enough in their bank account to cover a \$400 emergency expense and a quarter of non-retired adults don't have any retirement savings at all.¹ To avoid sticker shock and potential disappointment, think about the big-ticket expenses through the journey of life:

- A 20% down payment on a house priced at the national median of \$313,000 is more than \$60,000. In high-cost states like California, a 20% down payment can be \$120,000 or more for a median priced house.
- The average cost of college for one year at a state university is more than \$25,000, including room and board,² or more than \$100,000 for four years. That means it will cost more than \$200,000 to send two kids to an in-state college for four years.
- According to AARP, the average retiree needs to replace roughly 80% of pre-retirement income.³ Social Security will cover a portion of your income and your savings will need to cover the rest. The average monthly Social Security benefit was \$1,446 in 2020.⁴
- The cost of healthcare in retirement for a 65-year-old couple is nearly \$390,000 for the remainder of life, on average.⁵ That's the out-of-pocket cost of what Medicare doesn't cover.

It's not always easy to save. For many, it requires making sacrifices in other areas, like cutting back on eating out, or buying a used car instead of a brand new one. These short-term decisions can be worth it in the long run if they help you save more money for your financial goals.



Long-Term Thinking

Instant gratification feels good,* but having a long-term financial mindset makes it easier to avoid immediate temptation. For example, buying a motorcycle or a boat today will certainly feel better than maxing out your retirement contributions; however, over the long run, you might regret those choices if your retirement savings are falling short of expectations. Looking past the pain of bear markets and focusing on the long-term benefits of investing can also help give a different perspective for your financial picture. Important moments, like a family vacation or an anniversary dinner, deserve to be celebrated. Long-term financial goals also deserve to be supported. You need to strike a balance that works for you.



When it comes to savings, starting earlier is better, because of the benefits of compound interest. Don't be discouraged if you are a savings late bloomer. It might be harder to catch up later in life, but that shouldn't stop you from prioritizing it now. Starting today is better than tomorrow, or next year, or 10 years from now (you get the picture). For those of you 50 years old or above, the IRS has a catch-up provision that allows for retirement account contributions higher than the annual limit. Reach out to your Cetera financial professional for more details.

Consistency

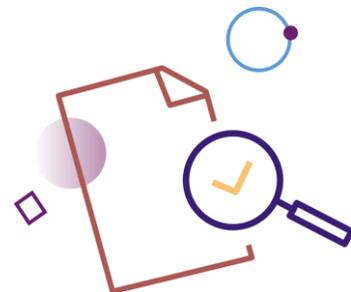
Establishing good financial habits and implementing a consistent approach will help lead to better outcomes over the long run. The process becomes easier if it's automatic. Whether you make an automatic deposit into your IRA each month or an automated contribution to a 529 college savings plan, you've made the decision once and you benefit from it multiple times.



Setting aside time each year for a review with your financial professional can help identify areas of improvement or provide an opportunity for adjustments if your goals have changed. Consistent check-ins, with a systemized approach, is a simple way to reduce the complexity of your finances and makes financial decisions easier.

Risk Management

It's critical to manage risk when building your savings. Investing in the stock market does add risk, though there are ways to manage it. A core fundamental of risk management is diversification, or the process of spreading investments across a variety of asset classes that have low correlations (i.e., they don't move directly in sync). Diversification limits concentration risk, or exposure to any one component of a portfolio. This is especially true if a portfolio has concentration risk within an individual stock, which can magnify the portfolio's overall risk. Your financial professional has a core responsibility to manage risk, and they can review your risk profile with you at any time.



* You can go into your kitchen and eat a slice of cake right now if you want a reminder. And...done.

One common approach to risk management is to separate assets based on different time horizons or goals. More risk can be allocated toward assets that are designated for longer-term goals because near-term market volatility risk isn't as much of a concern when you're investing for at least a decade. For assets allocated for short-term goals, however, near-term volatility is a much larger concern, resulting in a more conservative approach. Fortunately, your financial professional is here to provide coaching and steer you and your portfolio through times of uncertainty.

Spring Cleaning

April is a great time of the year for a fresh start, and a good spring cleaning can brighten the mood after the long, cold days of winter.** A refreshed look at your finances is another great way to kick off spring. Take some time to build up your fundamentals throughout National Financial Literacy Month, and determine your consistent process for pursuing your financial priorities. Even Steph Curry will need to shift his focus from the basketball court to a sound retirement plan when Father Time slows him down. Whether it's putting together a college savings plan, building a nest egg for retirement, or improving the tax efficiency of your portfolio, your Cetera financial professional is here to provide guidance as you navigate through your financial journey.

** With warmer weather upon us, so can going outside to practice your jump shot.



This report was created by Cetera Investment Management LLC. For more insights and information from the team, follow [@CeteraIM](#) on Twitter.

¹ Board of Governors of the Federal Reserve System: Report of the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020. <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf>

² EducationData.org: Average Cost of College & Tuition. <https://educationdata.org/average-cost-of-college>

³ Waggoner, J. (January 2020). How Much Money Do You Need to Retire? <https://www.aarp.org/retirement/planning-for-retirement/info-2020/how-much-money-do-you-need-to-retire.html>

⁴ USA Facts. Social Security Average Retirement Monthly Benefit. <https://usafacts.org/data/topics/people-society/social-security-and-medicare/social-security/social-security-average-monthly-benefit/>

⁵ Mercado, D. (July 2019). Retiring this Year? How much you'll need for health-care costs. <https://www.cnbc.com/2019/07/18/retiring-this-year-how-much-youll-need-for-health-care-costs.html>

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