Building Capital

Newsletter from FinArc Investments, Inc.

FinArc Investments, Inc.
Matthew Slaney, CFA
President
315 Norwood Park South
Norwood, MA 02062
781-762-8080
877-7FINARC
matthew.slaney@finarc.com
www.finarc.com

Your team at FinArc Investments is pleased to provide this e-newsletter to help you plan your financial future. We hope you find the content of value. If there are other topics you'd like us to cover in future editions, please let us know.

The first quarter of the new year is a good time to take stock in your financial well being. With that in mind, we have included articles that encourage you to do just that. We suggest that clients of all ages simplify your financial records and focus on what you can do today to ensure a pleasant retirement. Also, the new year is a good time for small business owners to evaluate their financial risk.
We appreciate your ongoing trust and allowing us to help you to achieve your financial goals. Please share any articles you feel might help others and don't keep us a secret from people that may find similar value in our work as you do.

First Quarter 2014 Newsletter

The Frugal Habits of Millionaires

The word "millionaire" typically conjures up images of a lavish, jet-setting lifestyle, but behind the scenes, that may not always be the case. Like Warren Buffett, who famously still lives in the relatively modest house in Omaha, Nebraska, that he bought in 1958 for $31,500, many millionaires (and billionaires) live a modest, if not downright frugal lifestyle--a lifestyle that may have helped them become millionaires in the first place.

We've all heard the saying "It takes money to make money." So how can you find extra dollars to save and invest? If you're looking to improve your financial position, consider putting some of these habits into practice.

Cultivate a frugal mindset

Many people equate being frugal with being cheap, but that's not really correct. Being frugal means carefully watching your dollars and not spending more than you need to--a trait many millionaires employ. To help cultivate a frugal mindset, get in the habit of asking yourself this question: "With a little extra effort and/or sacrifice on my part, is there any way I can save money here?" Having a frugal mindset can really help when it comes time to playing the role of American consumer, where temptation is everywhere.

Buy wisely and sparingly

We all need "stuff" now and then; the key is not overdoing it or overpaying for it. Try to buy mostly what you really need, not what you really want. Money you save can then be used to build your savings and investment accounts.

Don't let the price tag of your car, home, or designer suit define your character. For example, a reliable car that safely gets you from Point A to Point B may be completely sufficient for your needs. According to the book *The Millionaire Next Door,* the top car brand among millionaires is Toyota, not Mercedes or BMW. Even Mark Zuckerberg, the billionaire founder of Facebook, has been spotted driving an Acura TSX, an entry-level luxury car whose base price is about $30,000. The bottom line? As you move up the net worth ladder, avoid the temptation to elevate your "status" by overspending on luxury goods.

You can be smart about everyday consumer purchases, too. You might be surprised to learn that many millionaires clip coupons, buy in bulk, wait for sales, scour eBay and Craigslist for deals, limit clothing purchases, fly coach, avoid credit cards, and save half their restaurant meal for lunch the next day--habits that can free up cash for the occasional splurge.

Shun debt

Debt is bad. Well, mostly. At times taking on debt is necessary, for example when buying a home or attending college, because without it, many people won't have saved enough money. But generally speaking, you should be leery of taking on debt for things that cause you to live beyond your means. Remember, every dollar you borrow today is a dollar you'll have to pay back tomorrow, with interest.

People who turn a modest financial base into wealth often do so by living frugally, saving regularly, investing wisely, and avoiding debt. By contrast, people who end up in a perpetual cycle of debt are often those who spend and borrow excessively to support an unsustainable lifestyle.

Take action

What do CEOs Tim Cook (Apple), Ursula Burns (Xerox), Robert Iger (Disney), and Indra Nooyi (PepsiCo) have in common? They're all up by 5:00 a.m., hitting the gym, reading, working. As Benjamin Franklin famously quipped: "Early to bed and early to rise makes a man healthy, wealthy, and wise." And indeed, many millionaires and leaders aren't couch potatoes. They don't sit around waiting for things to happen; they make things happen--by getting up early, working hard, looking for opportunities, constantly educating themselves, taking calculated risks, networking, staying active, and generally trying to improve themselves day in and day out. And with the explosion of information online 24/7, learning new things has never been easier.

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Think Outside the Shoe Box When Organizing Financial Records

If you have questions about how long to keep copies of your federal tax returns and related records, see IRS Publication 17, Your Federal Income Tax. And because states may have different rules, check with your state's tax authority to find out how long to keep state tax returns and records.

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

What records do you need to keep?

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

How long should you keep them?

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

Records that you may want to keep for a year or less include:

- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

Records that you may want to keep for more than a year include:

- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

Records that you may want to keep indefinitely include:

- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers
- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

Where should you keep them?

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight.

For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

Staying organized

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.

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A Focus on Financial Risk for Business Owners

Financial risk is a key component of nearly every small business success story. But risk comes in many different forms.

Both current and potential small business owners face difficult choices when it comes to financial decisions. Many often wonder, "How much risk is too much?" Do you find yourself pondering this question? Although the answer is unique to each business, understanding some of the many types of financial risk may help you make more informed decisions.

Cash flow risk

Perhaps the most important priority in any small business is making sure that enough money comes through the door to keep the lights on and the operation running. To help the business weather low-cash-flow periods, be sure to have several months' worth of business expenses (including your own income, as well as your employees') set aside in a safe, liquid account for easy access. Make sure your business budget accounts for the time it takes for most of your customers' bills to be paid. Also, plan a few tactical moves that will help you quickly cut costs during short-term cash crunches.

For example, when times are good, buy supplies in bulk so that you can cut back in those areas during the crunch periods. Also, identify the discretionary items in your budget that can be eliminated, so you'll know ahead how much you can save by doing so. Finally, when faced with financial challenges, try to negotiate better deals for both fixed and variable costs. Suppliers, lenders, and even landlords will often renegotiate rather than risk losing a good customer or tenant.

Liability risk

Eager to get under way, new business owners may overlook the importance of choosing the most appropriate business entity. For example, are you comfortable putting your family's home and your personal savings on the line for the sake of your great idea? If not, you probably want to consider your choice of business structure carefully. Not only is it critical in managing your personal liability, but your decision will also determine how much control you maintain over the business itself. Following is a brief overview of several popular business structures:

- **Sole proprietorships:** Although the easiest type of business to set up, a sole proprietorship is among the riskiest in terms of personal liability. This structure can put nearly all of your personal assets at risk.
- **Partnerships:** In a general partnership, all partners can act on behalf of one another in managing the business, and each partner is personally liable for the acts of others. All partners are personally responsible (though not necessarily equally so) for the financial obligations of the business. In a limited partnership, one person typically acts as the managing partner while others act as limited partners. The limited partners have little involvement in day-to-day management, and their personal liability is generally limited to the amount they invest.
- **Corporations:** C corporations and S corporations provide the greatest liability protection. However, there are many drawbacks to these entities, including higher levels of complexity and the potential loss of control to shareholders and board members.
- **Limited Liability Companies:** LLCs offer protections that are similar to corporations, but with less complexity.

Credit and interest rate risk

Although there are likely many successful entrepreneurial tales that began with maxed-out credit cards, financing your business with plastic is a highly risky endeavor. First, you need to ensure you maintain enough cash flow to make at least the minimum payment each month. Second, if you do not ramp up quickly enough to pay off the credit cards over a short period of time, you will end up paying much more over the long term than the initial amount borrowed.

Business owners with established track records may consider traditional commercial loans from either their local banks or the Small Business Administration. Consider, however, that these loans typically have adjustable interest rates. Although rates have been relatively low in recent years, a strengthening economy has led to talk of higher rates--which means higher minimum payments for those with adjustable rate loans. Business owners should always be aware of interest rate risk and how it may affect their cash flow. Consider securing fixed-rate loans whenever possible.

Above all else, with both credit cards and loans, be sure to make your payments on time. Late payments or worse, a default, can damage your credit rating for a long time to come.

So how much risk is too much?

Answering this question takes a good amount of knowledge and perhaps an even greater amount of soul-searching. For any business owner, it's a personal decision based on unique facts and circumstances. Understanding the different types of risk involved can help you consider your options wisely, and then make the decisions that are right for you and your business.

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FinArc Investments, Inc.
Matthew Slaney, CFA
President
315 Norwood Park South
Norwood, MA 02062
781-762-8080
877-7FINARC
matthew.slaney@finarc.com
www.finarc.com

What unique challenges do women face in achieving a financially secure retirement?

Women can face special challenges when saving for retirement. Generally speaking, women tend to spend less time in the workforce, and when they do work, they typically earn less than men in comparable jobs. As a result, women's retirement plan balances, Social Security benefits, and pension benefits are often lower than their male counterparts. In addition, women generally live longer than men, so they typically have to stretch their retirement savings and benefits over a longer period of time.

What can you do to maximize your chances of achieving a financially secure retirement? Start saving as soon as possible. The best time to start saving for retirement is in your 20s; the second best time is right now. At every stage of your life, there will always be other financial needs competing with the need to save for retirement. Don't make the mistake of assuming it will be easier to save for retirement in 5, 10, or 15 years. It won't. Start small, with whatever amount you can afford, and contribute regularly, adding to your contribution when you can.

If you're in the workforce, an employer retirement plan like a 401(k) plan can be a convenient, no hassle way to get started and build your retirement nest egg--contributions are deducted automatically from your paycheck and may qualify you for employer matching funds. If you're out of the workforce and married, you can contribute to an IRA (traditional or Roth), provided your spouse earns enough to cover the contributions.

In many cases, your job is your lifeline to being able to save for retirement. Before leaving the workforce for family obligations, consider exploring with your employer the possibility of flexible work arrangements, including telecommuting and part-time work, that might enable you to continue to earn a paycheck as you balance your family obligations.

Start planning now by taking the following steps: (1) set a retirement savings goal; (2) start saving as much as you can on a regular basis, and track your progress at least twice per year; and (3) find out how much you can expect to receive from Social Security at www.socialsecurity.gov.

Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs--remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy--which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

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