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FINANCIAL NEWS

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# How to Raise Financially Responsible Children

Although you'll have to wait a good while before they'll thank you for it, teaching your children to be financially responsible is one of the best gifts you can give them. Of course, the earlier they start to learn about making wise money decisions, the fewer bad habits they'll have to ultimately unlearn. The time truly flies while they're growing up, so starting these lessons before they head off to college (and are tempted by free money credit card offers) could start them off on the right foot and prevent them from falling into a cycle of debt when they're on their own. Fortunately, most of the lessons can begin while they are still very young.

**Lesson #1: Appreciation for the value of money** - money has to be earned - and when it is, they better appreciate its value. Those of us who had a job like babysitting or mowing lawns in the summertime might remember when a new video game was no longer just $50 of Mom and Dad's money, but the equivalent to 10 hours of work. Perhaps you recall hesitating to purchase a soda for $1.50 and opting to visit the water fountain because you were saving your allowance from doing chores. Prices are just abstract numbers until time and effort has been spent to generate those coins and bills.

Consider forming an allowance-for-chores policy to teach your children about money management early on. You pay for the basics, but if they want the extras, they will have to save up and use their own money. It's an important lesson on its own, but will also help them focus their priorities and feel a sense of pride in accomplishment.

**Lesson #2: Saving the money they earn** - teach them to save a portion of what they earn from the get-go. This habit will make it much easier for them to not spend their entire paycheck as well as leave their savings intact when they are on their own. You may need to encourage them firmly at first, with a fixed percentage or minimum amount. As they grow older and their savings increase, they will need less guidance as they come to appreciate the readiness of available funds for a special purpose.

**Lesson #3: Setting goals and staying on track** - Helping your children set short-and long-term goals is a key part of getting them to stick to a savings strategy. Most children are not that excited by slowly rising dollar amounts, but when a certain dollar amount represents a desperately desired new toy, their focus sharpens considerably. Make a chart to show them how much they would need to save over a specific amount of time to have enough for their goals . . . and make sure to reward them when they stay on track.

**Lesson #4: The nitty-gritty of a balanced budget** - Show your children the day-to-day workings of adult finances. Go through the line items on your budget (with real or simplified amounts) and reveal your own percentage of savings for short-term and long-term goals. You can explain the benefits of autopay, managing a bank account online, minimum balances and fees, and even how to fill out a check (some landlords and city utilities still require checks for bill-payment). It may seem mundane to you, but depending on the child's age, the desire to be grown up could increase their interest level and make abstract concepts more understandable.

**Lesson #5: Understanding debts and loans** - When young adults are first exposed to credit cards, they may not understand that purchasing things on credit or taking out a loan ends up costing more money. Explaining how interest can work for you (in a savings account) and against you (in a loan or on credit) can help them from making bad decisions. Above all, modeling financial responsibility in your own life can help them form the basis for a lifetime of good money habits.

Allie, Bob, & Sarah

# Personal Note

**THIS TIME IS DIFFERENT!**

If you have thought this over the past few weeks as the Russian invasion into the Ukraine transpired you are not alone. Neither I, nor anyone else, knows exactly how the conflict will unfold. Will the fighting end quickly? Will Putin give up and relent? Will the conflict expand further into Europe and turn into World War III? With potential outcomes like that it makes me uncomfortable to even try to guess how the details play out. But, in my opinion, this time is NOT different. In fact, I believe the saying "This time is different" represent the four most dangerous words in the investment universe. What we are witnessing has occurred before and the reactions across global stock markets are playing out in a very, very rational and typical fashion. Again, as stated above, I do not know what will happen, but the following excerpt makes sense to me and I agree with the assessment:

**** Russia is now an economic leper***

Increasingly it appears that Putin is playing Russian Roulette with his future and that of the Russian economy. As time progresses, the Russian troops appear less than optimal in their invasion and, as the world recoils and leaves Russia in an economic abyss and ostracized/ isolated from the global economy, irreparable damage is occurring as it looks that Putin's gun has no empty chambers!

The value of Russia's currency (the ruble), the collapse of the country's capital markets and the abandonment of financial interconnectivity (with the rest of the world) has resulted in a self-inflicted (and structural) wound that will heal slowly, if at all.

Russia, stated simply, is now an economic leper.

(The Credit Strategist's) Mike Lewitt wrote recently: *"From an analytical standpoint, it is important to think about how the Ukraine invasion will change the geopolitical map. Unlike earlier Russian invasions of Georgia (2008) and Crimea (2014), this invasion is different in scale and human horror. It is a larger version of the genocidal war Russia sponsored in Syria a few years ago. The world is not accustomed to seeing war waged in Western cities against Western civilian populations and is reacting not merely with moral outrage but tangible actions designed to inflict real harm on Russia and its supporters.*

*This brings us to all-important China. While China is staying relatively quiet, it can't be happy with what Russia is doing. I take news stories that China is standing side-by-side with Russia with a grain of salt. China will take a cold-blooded look at the world and do what is in its own interest - period, full stop. And China's ability to triangulate with Russia against the United States is severely compromised by Russian economic distress. China is much better served by an economically stable Russia that can collaborate with it against American interests. Rather than a co-equal partner in an alliance against the United States, however, Russia is turning itself into a needy dependent that will burden China economically, diplomatically and strategically in any anti-American alliance. Rather than accelerate any assault on Taiwan as some suggest, this Ukraine debacle may cause China to reevaluate its plans in view of the new geopolitical landscape. An attack on Taiwan could place China next to Russia in the global isolation ward regardless of China's greater importance to the global economy than Russia. The West is already actively seeking alternative sources for semiconductors and other China-sourced goods. The West has had its fill of fascism in the first two decades of this young century.*

*The question is no longer whether Putin will take Ukraine. If Putin won't stop his assault, Ukraine is going to fall sooner or later (for the sake of the Ukrainian people, hopefully sooner). The question is what cost he will pay to take Ukraine. He already lost more than he can possibly gain. Putin unleashed chaos that he can't reverse. In one fell swoop, he united a fractured NATO, revived Germany's military spending and potentially its nuclear energy industry, alienated Turkey (which was trying to play both sides of the fence with Russia and the U.S. and whose geopolitical importance can't be exaggerated), and shattered Russia's economy. The longer the war goes on, the worse matters will turn out for Russia.*

*In the long arc of history, Ukraine is paying the price for what may prove the final collapse of the Russian empire that Putin desperately wants to reassemble. But that empire failed the first time because of precisely the types of destructive and inhumane behavior Putin is now repeating. We may be witnessing the end of Russia as a significant world power. If the country was more than a gas station with nuclear weapons before, it won't be much more than that after this crime against humanity is over. But its actions leave China weaker, not stronger, and America stronger, not weaker, as long as America sees clearly the opportunity presented to step up and lead the world again."* [1]

I believe very, very strongly that freedom and democracy will not only survive the viscous assault going on in Europe, but will emerge victorious. The policies, actions, and goals of dictators/comrade-chairmen who lead the Soviet Union to its ultimate demise are being repeated once again. This time is NOT different.

*1 https://realmoney.thestreet.com/dougs-daily-diary?published[value][date]=2022-03-03&author=All#the-hits-keep-co-20220303*

# The Psychology of Saving

Saving money sounds simple. You set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve what you most want. But in reality, savings is a little more complicated. Sometimes, our own minds work against us when it comes to setting aside some of the money we earn. A basic understanding of the psychology of saving can help you overcome roadblocks and achieve your goals.

**Why It's Hard to Save**

What is one of the biggest obstacles most people face when saving? We tend to prefer the certainty of and immediate gratification of short-term rewards over the potentially greater - yet perhaps more uncertain - benefits of longer-term rewards. One study found that most adults would prefer to have $50 today rather than $100 two years from now, for example.

Part of the difficulty with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize savings for the future. Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self, rather than in terms of their basic self-interest, would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to save more.

In fact, there are a number of studies that suggest changing our mentality - either about the future or about savings in general - might allow us to set aside more money. One study found that people who adopted a cyclical mindset to saving, where they focused on making saving routine in the short term, saved more than people who set more ambitious longer-term goals. Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period. Overall the evidence seems to suggest that if we can change the way we think about the future - and our future selves - we may be able to boost our savings rates.

**The Psychological Advantage of Saving**

Once you commit to savings, there's a good chance you'll see a psychological boost from doing so. A survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account. That same survey found that 82% of people reported saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howelll, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on their life experiences they considered meaningful.

While our mental quirks might make savings difficult, being aware of the obstacles our mind creates can help us conquer them.

## A NOTE FROM ALLIE

As many of you know, my husband, Jack, and I welcomed our first child in November of last year! Her name is Lucy (pictured here). I recently returned from maternity leave and am adapting to being a working mom. We are currently juggling nannies while waiting to join a daycare program, which is quite competitive in Nashville!

Lucy has already become a traveler like her parents. She's been on 2 airplane rides and a couple of road trips, including two seven-hour drives! She has been a trooper (so far)! We will even be getting her a passport soon, so she can join us on our international vacations as well. We are hoping to bring her to England at some point to visit Jack's grandmother as she celebrates her 92nd birthday meeting her first great-grand-daughter! If you have any tips for traveling with kids, please share!

# Watch Out for These Portfolio Mistakes

Investing is a gradual process - purchasing some investments and selling others as the years go by. After a period of years, this can result in a mixture of investments that don't fit your overall strategy. Thus, periodically review your portfolio, watching out for these mistakes:

**You don't use an asset allocation strategy.** Many investors select individual investments over the years, not considering their portfolio's overall makeup. Add up all your investments and calculate what portion is invested in each category. The basic categories are stocks, bonds, and cash, but each of these also has many subcategories. Assess your current allocation and determine whether it fits your personal situation.

**You have too many investments that aren't adding diversification to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments to their portfolio that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Before adding an investment, make sure it will further diversify your portfolio.

**Your portfolio's return is lower than benchmark returns.** Review the return of each component of your portfolio, comparing it to a relevant benchmark. While you may not want to sell an investment that has underperformed for a year or two, at least monitor closely any investments that significantly underperform their benchmarks. Next, calculate your portfolio's overall rate of return and compare it to a relevant benchmark. Include all your investments - those in taxable accounts and retirement accounts. Also be sure to compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

**You trade too frequently without adequate research.** With so many choices and so much information, it's tempting to trade often based simply on other people's recommendations. Yet, besides the tax and costs associated with trades, frequent traders often underperform those who trade less frequently. Instead, purchase investments you are willing to hold for the long term.

**You don't consider income taxes when investing.** Ordinary income taxes on short-term capital gains and interest can go as high as 37%, while long-term capital gains and dividend income are taxed at rates not exceeding 20%. Using strategies that defer income taxes for as long as possible can make a substantial difference in your portfolio's ultimate size. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax deferred accounts.

To help maximize your portfolio's value, avoid these investment mistakes. Please call if you'd like help reviewing your investment portfolio.

## A NOTE FROM SARAH

As many of you know, I coach middle school girls' basketball in the winter. This year I ended up coaching a total of four teams. That was not my intention going into the season, but somehow it ended up happening because more and more girls wanted to play. All my teams were able to improve throughout the season, and I'm excited to keep coaching in the future. As much as I love coaching, I am excited to have my social life back outside of work and enjoy the spring weather. If anyone has any good restaurant recommendations in Nashville (or anywhere!) send them my way!

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