

13 BASIC TENETS FOR LIVING FINANCIALLY INDEPENDENT

I've witnessed countless trends in my position within the financial planning industry for nearly 18 years. People constantly inquire about what I do as a Financial Planner! How do I stand apart from my peers in offering financial advice? Clients contemplate why would they invest their hard-earned money with me? People have asked me to help them in many different ways; from college planning for their children to retirement and estate planning for themselves or their parents. All of my personal beliefs and philosophies have been molded by my parents, my time in the Marine Corps, mentors and, most importantly, wisdom gained as a result of years of experience. That wisdom has provided me with an ability to make sensible decisions based on my own personal knowledge and experiences. What I enjoy most about my job is that over such a long career I have been privileged to see, first-hand, what decisions have made people successful in life. My job is to share with you how other people have solved similar issues and why they made their decisions. Here is a brief summary of certain financial beliefs that I hold, as well as 13 tenets that you can use to implement your own financial strategy:

Pay off all credit cards and auto loans as soon as you can. Pay off your home mortgage early. Allow yourself to save at least 10-15% of your income each month. Pay cash for every purchase unless it is an emergency. Use a credit card only in the case of emergencies and make every attempt to use a card with the lowest interest rate available to you. Invest conservatively by investing in what you understand. Keep it simple. Create and adhere to a budget. Think of a budget as a means to identify areas in your life where you have excesses and shortfalls. If you can free up \$2,000 a year by not going to Starbucks, that gives you *CHOICES* that allow you to allocate funds elsewhere in your life such as savings, travel or contributions to your church or your favorite charity. No matter where you are in life, whether you're retired or saving for retirement, here are 13 tenets that you can use to implement your own financial planning strategy.

Tenet 1 - Establish a 3-6 month Emergency Fund. An emergency fund is for those unexpected events in life that you can't plan for: The loss of a job, an unexpected illness, a car accident, and the list goes on and on. It's not a matter of *if* these events will happen; it's simply a matter of *when* they will happen.

Tenet 2 - Establish a Budget. A budget is probably the key to every other tenet in these recommendations. Every company in America uses a budget in some form or fashion to manage its finances. Start thinking of yourself as - YOU INC.. You are your own CFO in charge of building your net-worth or going into debt. Managing your budget means giving yourself *CHOICES* in life. If you have choices, you have freedom to live your life the way you envision it. The bank has a budget and is counting on you not following one. See Tenet 3.

Tenet 3 - Pay off All Existing Debt. By paying off those credit cards and auto loans that charge 10-20% interest, the money that you were paying towards that interest will be paid to yourself instead of a bank. Is your local bank branch nicer than your house? There is a reason for this. They're earning 10-20% return on YOU through those loans and credit cards! It is that simple.

Tenet 4 - Lending Money to Friends- This is one of the hardest pieces of advice that I can give to someone. Do not under any circumstances loan money to friends. If someone comes to you asking for money, chances are they have no savings, maximized their credit cards, been turned down by every bank for a personal loan, has not paid their taxes and has no equity in their house to borrow. If everyone else has turned them down, there is a reason. You are not the Bank of YOU, Inc. that can afford to lend money. If someone has failed to follow any of these tenets, it is not up to you to save them. The only exception is for medical emergencies for the closest of family members that is life or death.

Tenet 5 - Invest at least 10-15% of your income in your 401k, Roth IRAs, IRA or annuities. With the decline of pension plans, unless you are in the military, work for the government or as a teacher, no one is going to help you to retire. You must help yourself.

Tenet 6 - Establish college funds for children or grandchildren. One of the best ways to save for college is with 529 plans. Remember, college *is* possible without loans. Whether you are saving for your children or grandchildren to go to college, you need to start now. Saving \$100 a month when a child is 2 years old for the next 16 years is easier than borrowing money and paying a bank interest for another 16 years after college. Remember Tenet 3.

*If you are going to accrue loans to pay for your children's college education, put those loans in your child's name. Your children have time to pay off those debts. You, as parents or grandparents, don't have the same luxury of time to pay off those debts while trying to save for your own pension.

Tenet 7 - Pay off your house early. People of wealth simply do not have mortgages. You never make an investment for a tax deduction. Having a mortgage is no different. If you can pay off your house in 15 years verses 30, then you will be one step closer to retirement and to having CHOICES. If you can't pay off your house in 15 years, then you may have likely purchased a home that you can't afford and may want to consider downsizing.

Tenet 8 - Build YOUR OWN personal pension retirement income. As your retirement assets grow, a basic rule of thumb is that you should be able to withdraw a 5% income distribution from your total pension assets as your income without affecting your principal. Annuities are a very good vehicle for providing this income to you. Be open-

minded about annuities. Let the insurance company assume your retirement risk. These are the vehicles major companies use to provide pensions. Use them for yourself.

Tenet 9 - Invest in what you understand. Any investment, if used improperly, can be a bad one. Keep your investments simple. Understand your investments. Invest for dividends. If you can earn a 4% average dividend and your goal is a 7-8% total return then 50% of the battle is won.

Tenet 10 - Long Term Care Insurance – If you have never thought of investing in this product, look very closely again at it. Health care expenses can account for 25-30% of our retirement costs at one point in time in our retirement. Unless you are specifically saving enough money to cover an additional expense in today's dollars of \$50-75,000 in nursing home or home health care expenses per year per spouse, you need to re-insure the risk away to another entity and that entity is an insurance company. The sooner that you purchase it, the better the deal can be for you and the worse it is for the insurance company.

Tenet 11 - Hire a Financial Planner. Hire someone who is technically proficient and will show you options. Hire someone who listens more than they talk. Hire someone who is truly interested in your needs and puts your goals before theirs. Find a planner you trust and one who has solid industry experience. You would never go in front of a judge without an attorney nor would you perform surgery on yourself. The worst option is to go it alone. Your retirement account is not an area to learn lessons the hard way. Remember, just as your planner is 50% of your team you are the other 50%. Be honest and open-minded with them. If you have concerns, voice them.

Tenet 12 - Be a philanthropist. Leave an inheritance for future generations or give to your church or charity. It doesn't have to be money. It can be your time, your wisdom or even your service to others. So many people need more than money. There are millions of foster children in America without a Big Brother or Sister who would value you loving them more than buying them a new car. Hoarding money is not the way to wealth. Save for yourself, save for your family's future, and be gracious enough to bless others. You can do all three at the same time.

Tenet 13 - Have a passion. Have a passion in life that lets your financial planning be the engine to give you purpose. Regardless of your net-worth, it is important to have a dream larger than life and to pursue that dream. It could be learning to paint, running a marathon or making the Olympic team. If you fall short, that is OK. The pursuit of the dream is sometimes more rewarding than obtaining the dream. When you reach your goal, take stock and look to the horizon for another goal.

There are no guarantees in life, even if you make all the right decisions. The future is never predictable. You can, however, increase your chances of living financially independent by adhering to the above tenets and by sharing the same lessons with your children.

RICHARD HENDRY

These are only a few of my personal and financial philosophies that I am grateful to have learned from my family, mentors, failures and successes to be able to share with others. I hope that this provides you with a glimpse into our Financial Planning practice and with an understanding of the beliefs that I hold for my clients.

Sincerely,



Richard P Hendry, CDFA
Registered Principal

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