HBKS® Wealth Advisors

Saving Builds a Foundation

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The first step in investing is to create a strong financial foundation. Start with three basic steps:

- **Create a "rainy day" reserve**. Set aside enough cash to get you through an unexpected period of illness or unemployment; three to six months of living expenses is generally recommended. Because you might need to use these funds unexpectedly, you'll generally want to put the money in a low-risk, liquid investment.

- **Pay off your debts.** It might make more sense to pay off high-interest-rate debt (for example, credit card debt) before making investments that could produce a lower or more uncertain return than the interest on those debts.

- **Max out any tax-deferred retirement plans, such as 401(k)s and IRAs.** Putting money in these accounts defers income taxes, which means you'll have more money to save. Take full advantage of tax-deferred plans if they are available to you.

SETTING INVESTMENT GOALS

Setting goals is an important part of financial planning. Before you invest your money, you should spend some time considering and setting your personal goals. For example, do you want to retire early? Would you like to start your own business soon? Do you need to pay for a child's college education? Would you like to buy or build a new house? There are several things to consider that can help you and your financial professional develop an appropriate plan.

THINK ABOUT YOUR TIME HORIZON

One of the first questions you should ask yourself in setting your investment goals is, "When will I need the money?" Will it be three years or 30? Your time horizon for each of your financial goals will have a significant impact on your investment strategy, the general rule being the longer your time horizon, the higher risk (and potentially more lucrative) investments you can make. If you have a longer time horizon, you can ride out fluctuations in your investments for the potential of greater long-term returns. On the other hand, if your time horizon is short, you may want to concentrate your investments in less risky vehicles because you may not have enough time to recoup losses should they occur.

REMEMBER YOUR LIQUIDITY NEEDS

Liquidity refers to how quickly you can convert investments into cash. Real estate, for example, tends to be relatively illiquid; publicly traded stock, fairly liquid. Your need for liquidity will affect the types of investments you might choose to meet your goals. For example, if you have a "rainy day" reserve, you're in good health, and your job is secure, you may be willing to hold some less liquid investments that may have higher potential for gain. However, if you're looking to buy a house or paying for an upcoming wedding, you probably don't want all of that money invested in less liquid assets. Having some relatively liquid investments could also keep you from having to sell non-liquid assets when their prices are depressed.

Be sure to review your cash reserve periodically. Personal and financial circumstances change, and you want to be sure your cash reserve fits your needs. Having a safety net set aside might also allow you to feel more confident about taking on risk in your investment portfolio. If you have excess cash beyond your liquidity needs, and you are maxing out retirement plans, you could invest the excess cash in an investment portfolio

WHY INVEST?

- To protect against inflation ... When people say, "I'm not an investor," it's often because they worry about the potential for market losses. It's true that investing involves risk as well as reward. However, there's another type of loss to be aware of: the loss of purchasing power over time. During periods of inflation, each dollar you've saved will buy less and less as time goes on.

- To take advantage of compound interest ... Everyone with a savings account understands the basics of compounding. The funds in your savings account earn interest, and that interest is added to your account balance. The next time interest is calculated, it's based on that increased value of your account. In effect, you earn interest on your interest. Still, many people don't fully appreciate the impact compounded earnings can have, especially over a long period of time.

Please contact me to review or update your financial plan, and to ensure you have the right amount of liquidity as well as a properly allocated portfolio.

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Quinto is a principal and senior financial advisor in the Erie office of HBKS® Wealth Advisors. He works directly with clients providing comprehensive financial planning services and developing investment management strategies. Quinto began his financial services career in 2001. He graduated from John Carroll University with a bachelor's degree in business marketing.

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