



October 2019

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Earnings Season: What Investors Can Take Away from Corporate Reports

Publicly traded companies are required to report their financial performance to regulators and shareholders on a quarterly basis. Earnings season is the often-turbulent period when most companies disclose their successes and failures.

U.S. companies included in the S&P 500 index suffered year-over-year earnings declines in the first two quarters of 2019.¹ Rising wages and higher material costs (partially due to tariffs imposed on traded goods) had started to cut into profit margins.²

Earnings reports are closely watched because they reveal a corporation's bottom line. However, they generally reflect past performance and may have little to do with future results.

Performance lingo

A quarterly report includes unaudited financial statements, a discussion of the business conditions that affected financial results, and some guidance about how the company expects to perform in the following quarters. Financial statements reveal the quarter's profit or net income, which must be calculated according to generally accepted accounting principles (GAAP). This involves subtracting operating expenses (including depreciation, taxes, and other expenses) from net income.

Earnings per share (EPS) represents the portion of total profit that applies to each outstanding share of company stock. EPS is often the figure that makes headlines, because the financial media tend to focus on whether companies meet, beat, or fall short of the consensus estimate of Wall Street analysts. A company can beat the market by losing less money than expected or can log billions in profits and still disappoint investors who were counting on more.

An earnings surprise — whether EPS comes in above or below expectations — can have an immediate effect on a company's stock price.

Shaping perception

In addition to filing regulatory paperwork, many companies announce their results through press releases, conference calls, and/or webinars so they can influence how the information is judged by analysts, financial media, and investors.

Pro-forma (or adjusted) earnings may exclude nonrecurring expenses such as restructuring costs, interest payments, taxes, and other unique events. Although the Securities and Exchange Commission has rules governing pro-forma financial statements, companies have leeway to highlight the positive and minimize the negative. There may be a vast difference between pro-forma earnings and those calculated according to GAAP.

Many companies also take steps to manage expectations. Issuing profit warnings or positive revisions to previous forecasts may prompt analysts to adjust their estimates accordingly. Companies may also be able to time certain business moves to help meet quarterly earnings targets.

The media hype surrounding an earnings surprise can sometimes draw attention away from important details that may be revealed in a company's quarterly report. Factors such as sales growth, research and development, new products, consumer trends, government policies, and global economic conditions can all affect a company's longer-term prospects.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index.

¹ FactSet, August 9, 2019

² Reuters, April 9, 2019



Changes Throughout Life

As you move through different stages of life, you will face new and unique financial situations. Did you just get engaged? Perhaps you are wondering how you and your partner are going to manage your money together. Do you have children? Maybe you are looking for ways to pay for their college education. When you navigate through these various life events, you might seek professional guidance to help you make sound financial choices.

Five Times in Your Life When You Might Need Help with Your Finances

1. Getting married

Getting married is an exciting time in one's life, but it also brings about many challenges. One challenge that you and your spouse will face is how to merge your finances. Careful planning and communication are important, since the financial decisions you make now can have a lasting impact on your future. You'll want to discuss your financial goals and determine which are most important to both of you. You should also prepare a budget to make sure you are spending less than you earn. Other issues to consider as a couple include combining financial accounts, integrating insurance coverage, and increasing retirement plan contributions.

2. Buying a home

Buying a home can be stressful, especially for first-time homebuyers. Since most people finance their home purchases, buying a house usually means getting a mortgage. As a result, you'll need to determine how large a mortgage you can afford by taking into account your gross monthly income, housing expenses, and long-term debt. And if you haven't already done so, you'll need to save for a down payment. Traditionally, lenders have required a 20% down payment on the purchase of a home, however many lenders now offer loans with lower down payments.

3. Starting a family

Starting a family is an important — and expensive — commitment. As your family grows, you will likely need to reassess and make changes to your budget. Many of your living expenses will increase (e.g., grocery, health-care, and housing costs). In addition, you'll need to account for new expenses such as child care and building a college fund. Having a family also means you should review your insurance coverage needs. Life insurance can help protect your family from financial uncertainty if you die, while disability insurance will help replace your income if you become injured or sick.

4. Paying for college

Paying for college is a major financial undertaking and usually involves a combination of strategies to help cover costs — savings, financial aid, income during the college years, and potentially other creative cost-cutting measures. Hopefully, you've been saving money on a regular basis to amass a healthy sum when your child is ready for college. But as college costs continue to rise each year, what you've saved may not be enough. For this reason, many families supplement their savings at college time with federal or college financial aid. Federal aid can include student and parent loans (need-based and non-need-based), grants and work-study (both need-based), while college aid consists primarily of grants and scholarships (need-based and merit-based). In fact, college grants and scholarships can make up a significant portion of the college funding puzzle, so exploring the availability of college aid is probably the single biggest thing you can do after saving regularly to optimize your bottom line. In addition to financial aid, you might take out a private college loan or borrow against your home equity. Or you might pay college expenses using your current income or other savings or investments.

5. Saving for retirement

You know that saving for retirement is important. However, sometimes it's easy to delay saving while you're still young and retirement seems too far off in the future. Proper planning is important, and the sooner you get started, the easier it will be to meet your retirement income needs. Depending on your desired retirement lifestyle, experts suggest that you may need 80% to 100% of your pre-retirement income to maintain your standard of living. However, this is only a general guideline. To determine your specific needs, you'll need to estimate all your potential sources of retirement income and retirement expenses, taking taxes and inflation into account. Once you've estimated how much money you'll need for retirement, your next goal is to save that amount. Employer-sponsored retirement plans like 401(k)s and 403(b)s are powerful savings tools because you can make pre-tax contributions (reducing your current taxable income), and any investment earnings grow tax deferred until withdrawn, when they are taxed as ordinary income. You may be able to enhance your savings even more if your employer matches contributions. IRAs also offer tax-deferred growth of earnings.



Choosing Medical Directives

There are three types of advance medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment.

- A living will is a document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used only to decline medical treatment that “serves only to postpone the moment of death.”

- A health-care proxy lets one or more family members or other trusted individuals make medical decisions for you. You decide how much power your representative will or won't have.

- A do-not-resuscitate (DNR) order is a legal form, signed by both you and your doctor, that gives health-care professionals permission to carry out your wishes.

Key Estate Planning Documents

Estate planning is the process of managing and preserving your assets while you are alive, and conserving and controlling their distribution after your death. There are four key estate planning documents almost everyone should have regardless of age, health, or wealth. They are: a durable power of attorney, advance medical directives, a will, and a letter of instruction.

Durable power of attorney

Incapacity can happen to anyone at any time, but your risk generally increases as you grow older. You have to consider what would happen if, for example, you were unable to make decisions or conduct your own affairs. Failing to plan may mean a court would have to appoint a guardian, and the guardian might make decisions that would be different from what you would have wanted.

A durable power of attorney (DPOA) enables you to authorize a family member or other trusted individual to make financial decisions or transact business on your behalf, even if you become incapacitated. The designated individual can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

Advance medical directives

Advance medical directives let others know what forms of medical treatment you prefer and enable you to designate someone to make medical decisions for you in the event you can't express your own wishes. If you don't have an advance medical directive, health-care providers could use unwanted treatments and procedures to prolong your life at any cost.

Will

A will is quite often the cornerstone of an estate plan. It is a formal, legal document that directs how your property is to be distributed when you die. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want.

There are a couple of other important purposes for a will. It allows you to name an executor to carry out your wishes, as specified in the will, and a guardian for your minor children.

The will should be written, signed by you, and witnessed.

Most wills have to be probated. The will is filed with the probate court. The executor collects assets, pays debts and taxes owed, and distributes any remaining property to the rightful heirs. The rules vary from state to state, but in some states smaller estates are exempt from probate or qualify for an expedited process.

Letter of instruction

A letter of instruction is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor.

Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

Take steps now

Life is unpredictable. So take steps now, while you can, to have the proper documents in place to ensure that your wishes are carried out.



Types of Durable Power of Attorney

There are two types of DPOAs: (1) an immediate DPOA, which is effective at once (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you become incapacitated.

What Should I Know About Investing in Collectibles?

Collectible assets such as fine art, antiques, coins, and gems are one way to diversify your investment portfolio. But it can be difficult to predict if or when the money you invest will provide a return. Here are a few things you should know about collectibles before investing in them.

Not all collectibles are valuable. Some collectibles are valuable because of the creator's inherent talent or skills; each item is unique. Other collectibles are considered valuable because they're rare or experts and appraisers have attributed significance to them. Another type of collectible may have no intrinsic value, including baseball cards, action figures, stuffed toys, and vintage wine. These collectibles are subject to changing tastes and tend to be valuable only if they're currently in demand and someone is willing to pay for them, which makes it hard for collectors to get the timing right and profit from them.

Different factors help determine a collectible's value. The age of a given item as well as its quality, condition, historical value, and current popularity among collectors are factors that contribute to determining its worth.

It's easy to fall for a counterfeit. Even the most experienced appraisers can get duped by forgeries. And it's possible to overpay for a collectible because of an imperfection or inferiority that you didn't realize prior to the purchase.

Returns may be low. The average returns that investors earn from collectibles may not keep pace with inflation, and it may take a long time for them to appreciate.

The most compelling reason to buy a collectible is personal enjoyment. If you have pre-existing knowledge or interest in a collectible, or desire to learn more about a particular subject, then that's why you should buy a collectible — not because you expect a high investment return. Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Five Questions to Ask Yourself Before Investing in Collectibles

If you're interested in diversifying your portfolio with collectible investments, such as coins, stamps, or antiques, you'll want to ask yourself the following questions before doing so.

FIVE QUESTIONS TO ASK YOURSELF BEFORE INVESTING IN COLLECTIBLES				
1	2	3	4	5
What?	When?	Where?	Why?	How?
What are the risks associated with investing in this collectible, and am I comfortable taking them?	When will I be able to liquidate this investment and will the timing meet my need?	Where will I store my collectibles to make sure they're properly maintained?	Why am I investing in this particular type of collectible? Does it bring me joy, or do I think it will earn a profit?	How much do I know about this collectible's value and history?

Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

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