Starting Your Summer with a Midyear Financial Checkup

Every December, there seems to be an endless number of articles imploring investors to conduct a year-end financial checkup. That's not bad advice—but it comes at a time when many people are scrambling to deal with work and holiday responsibilities.

That's why you might consider doing a midyear financial review in place of—or along with—a December review. Sure, June can have its own hurdles such as the end of the school year and summer vacation prep. But you might find you have more time and flexibility at this point in the year.

With that in mind, here's a look at some key financial and investment action steps to consider before you embark on your summer adventures.

1. Revisit your goals and policies. Has anything happened in the past few months that could alter your reasons for investing or your specific investment goals? Big life changes, both positive (birth of a child or grandchild, big promotion at work) and negative (divorce, death in the family), can create revised financial goals.

2. Review your expenses and reserves. Has your recent spending matched your estimated spending? If inflation has risen sharply, for example, you might find that more of your money than you prefer is going to certain expenses—or than you can reasonably handle. Likewise, an unexpected emergency or significant financial need might mean your cash reserves have fallen below your target level and are in need of replenishment. Or perhaps you simply splurged on a big-ticket item or life experience and wonder whether doing so has impacted your ability to save and invest as you hope to. Regardless, it's important to know where you're at when it comes to expenses and your ability to shoulder them.

3. Revisit your risk profile. How emotionally comfortable are you with the amount of investment risk in your portfolio? There are several ways to determine the answer—such as looking at the worst-ever one-year loss for a portfolio like yours and asking yourself what you would do if you experienced the same return. Another

Continued on back page

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Continued from front page

approach: Assessing the level of anxiety you felt if the value of your portfolio fluctuated significantly in recent months due to market volatility. This type of review might determine that you're taking an appropriate amount of risk and that you're not tempted to make big changes when conditions are choppy. Alternatively, you might decide that you need to reduce your risk in order to stick with your long-term plan—or perhaps even increase your risk exposure if it makes sense to do so.

INVESTMENTS, TAXES AND DEBT

4. Examine loans and other debt obligations. Changing financial market conditions—such as rising or falling interest rates—can potentially impact loans with variable rates, as well as margin accounts. Determine if your debt obligations (personal, professional or both) have changed in ways that could require you to adjust your spending or pursue new opportunities to lower your overall interest payments.

5. Consider rebalancing your investment portfolio. Big market movements to the upside and the downside can cause portfolio asset allocations to drift from their desired targets—thereby altering a portfolio's risk-return expectations. Too much movement can mean it's time to reduce positions that exceed your asset allocation target and increase positions that are below the target. How much is too much? That depends on your risk tolerance, time horizon, goals and other concerns—as well as factors that a financial advisor or other professional might consider, such as the potential costs associated with rebalancing.

6. Look for tax mitigation opportunities. Although tax planning and reduction moves often occur toward the end of a calendar year, they can be implemented whenever it might make sense. A midyear review might reveal investment holdings that could be sold for a taxable loss to offset future taxable gains or possibly even to reduce ordinary taxable income. Whether you actually book the taxable loss should depend on various factors, and you need to be careful to avoid the "wash sale" rule—an IRS regulation generally prevents investors from claiming a tax loss on the sale of a security if they buy the same security or a substantially identical one within 30 days before or after the sale date. The larger point: Tax mitigation opportunities can arise at any time, so don't wait for the end of the year to look for them.

Additionally, a review might examine your income during the first half of the year. If you've already earned significantly more than you expected—from a bonus or because of a big project, perhaps—you may want to (depending on your employment status) change your tax withholding or your estimated quarterly tax payments so you don't get hit with a surprisingly large tax bill in April.

7. Look for ways to manage excess cash more effectively. Some investors hold more cash than they need for short-term emergency reserves. There may be ways to earn higher rates of interest on that cash without giving up too much liquidity.

These are just a few of the steps you might take to conduct a midyear review. The specific issues you (and your advisor) address will depend on the complexity of your financial life and perhaps your overall net worth. If you own a large business, for example, your review might also include areas such as company cash flow, succession planning and family governance.

Summer is calling. But before you hit the beaches, the national parks or the amusement parks, consider sizing up where you stand today financially and whether you might want to take actions aimed at improving your overall financial health.

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