

Emerald Spectrum Advisory

July Newsletter

Emerald Spectrum Advisory

Malissia Johnson,
CFP®, AAMS, CMFC
Brian Johnson, CFP®
100 Winners Cir N, Ste 210
Brentwood, TN 37027
615-369-0690
esateam@emeraldspectrum.com
www.emeraldspectrum.com

July 2018

Investing to Save Time Boosts
Happiness Returns

Shopping for a New or Used Car

What is the federal funds rate?

Can the federal funds rate affect the
economy?

EMERALD SPECTRUM
A D V I S O R Y
"AN EXTRAORDINARY PLANNING EXPERIENCE"

Have You Made Any of These Financial Mistakes?



As people move through different stages of life, there are new financial opportunities — and potential pitfalls — around every corner. Have you made any of these mistakes?

Your 50s and 60s

1. *Raiding your home equity or retirement funds.* It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

2. *Not quantifying your expected retirement income.* As you near retirement, you should know how much money you (and your spouse, if applicable) can expect from three sources:

- Your retirement accounts such as 401(k) plans, 403(b) plans, and IRAs
- Pension income from your employer, if any
- Social Security (at age 62, at your full retirement age, and at age 70)

3. *Co-signing loans for adult children.*

Co-signing means you're 100% on the hook if your child can't pay, a less-than-ideal situation as you're getting ready to retire.

4. *Living an unhealthy lifestyle.* Take steps now to improve your diet and fitness level. Not only will you feel better today, but you may reduce your health-care costs in the future.

Your 40s

1. *Trying to keep up with the Joneses.*

Appearances can be deceptive. The nice lifestyle your friends, neighbors, or colleagues enjoy might look nice on the outside, but behind the scenes there may be a lot of debt supporting that lifestyle. Don't spend money you don't have trying to keep up with others.

2. *Funding college over retirement.* In your 40s, saving for your children's college costs at the expense of your own retirement may be a mistake. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Then sit down with your teenager and have a frank discussion about college options that won't break the bank — for either of you.

3. *Not having a will or an advance medical*

directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Your 30s

1. *Being house poor.* Whether you're buying your first home or trading up, think twice about buying a house you can't afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from leaving the workforce to raise a family or a job change or layoff.

2. *Not saving for retirement.* Maybe your 20s passed you by in a bit of a blur and retirement wasn't even on your radar. But now that you're in your 30s, it's essential to start saving for retirement. Start now, and you still have 30 years or more to save. Wait much longer, and it can be very hard to catch up.

3. *Not protecting yourself with life and disability insurance.* Life is unpredictable. Consider what would happen if one day you were unable to work and earn a paycheck. Life and disability insurance can help protect you and your family. Though the cost and availability of life insurance will depend on several factors including your health, generally the younger you are when you buy life insurance, the lower your premiums will be.

Your 20s

1. *Living beyond your means.* It's tempting to splurge on gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle, especially if you have student loans to repay.

2. *Not paying yourself first.* Save a portion of every paycheck first and then spend what's left over, not the other way around. And why not start saving for retirement, too? Earmark a portion of your annual pay now for retirement and your 67-year-old self will thank you.

3. *Being financially illiterate.* Learn as much as you can about saving, budgeting, and investing now and you could benefit from it for the rest of your life.



"Time famine" is the feeling of being overwhelmed by the demands of work and life. Also known as time scarcity and time stress, this pressure is a "critical factor" in the rising rates of obesity.

Source: "Buying Time Promotes Happiness," PNAS, July 24, 2017

Investing to Save Time Boosts Happiness Returns

The more money you make, the more valuable you perceive your time to be — and the more time-strapped you may feel, according to University of British Columbia psychology professor Elizabeth Dunn.¹ So wouldn't it stand to reason that if you use some of your hard-earned money to buy yourself more time — for example, by paying someone to clean your house or mow your lawn — you might achieve a greater level of happiness? Indeed, that was the primary finding in a series of studies by Professor Dunn and other researchers published in the Proceedings of the National Academy of Sciences (PNAS).²

The discovery

The study's authors surveyed 6,000 individuals at diverse income levels in multiple countries, including the United States, Canada, the Netherlands, and Denmark. The surveys queried participants about whether they spent money on a monthly basis to hire others to take care of unpleasant or time-consuming daily tasks or chores — such as cleaning, yard work, cooking, and errand-running — and if so, how much they spent. Respondents were also asked to rate their "satisfaction with life" and report demographic information, such as their income level and whether they were married and had children.

Researchers found that across all national samples, 28.2% of respondents spent an average of about \$148 per month to outsource disliked tasks, while in the United States, 50% of respondents spent an average of \$80 to \$99 on services that save time. Across all studies, those who spent money to outsource disliked tasks and/or save time had a stronger life satisfaction rating. Findings were consistent across income spectrums; in fact, in the United States, researchers found a stronger correlation among the less-affluent respondents. The authors noted, however, that their studies did not include enough people at the lowest end of the income spectrum to attribute similar findings to this group.

Of course, correlation does not necessarily indicate causality, so the researchers designed a follow-up experiment to further test their hypothesis.

In this experiment, researchers gave a group of 40 adults \$80 each to spend over the course of two weekends. During the first weekend, they were to spend \$40 on something that would save them time, such as ordering groceries online and having them delivered. On the second weekend, they were directed to spend \$40 on a nice material purchase, such as clothes, board games, or a bottle of wine. On

average, those who spent money to save time reported better moods at the end of the day than those who purchased material goods. And according to the researchers, over time, the effect of regular mood boosts can add up to greater overall satisfaction with life.

In a third study, researchers asked respondents how they would spend an extra \$40. Just 2% indicated they would use the unexpected bonus to invest in time-saving services.

Perhaps most surprising of all the findings? Researchers polled 800 millionaires from the Netherlands about whether they spent money to save time. Despite the fact that these individuals could readily afford to hire others to take care of time-consuming tasks, only about half of them reported doing so on a monthly basis. Researchers surmise that the reason might be because such individuals feel guilty or don't want to be perceived as lazy for outsourcing chores they can easily do themselves.

The lesson

"If you have a lot of money and a lot of nice stuff, but you're spending your time doing things that you dislike, then your minute-to-minute happiness and overall happiness is likely to be pretty low," said Dunn in an interview about the research.³ In the PNAS report, the study's authors contend that this may be especially true for women:

"Within many cultures, women may feel obligated to complete household tasks themselves, working a 'second-shift' at home, even when they can afford to pay someone to help. In recent decades, women have made gains, such as improved access to education, but their life satisfaction has declined; increasing uptake of time-saving services may provide a pathway toward reducing the harmful effects of women's second shift."

The bottom line? If you can afford it, don't shy away from spending money to save time. Doing so is an investment that provides immeasurable returns in the form of overall well-being.

¹ "What Is Your Time Really Worth?" Elizabeth Dunn, TEDx Colorado Springs, December 1, 2014

² "Buying Time Promotes Happiness," PNAS, July 24, 2017

³ "A Psychology Expert Says Spending Your Money on This Can Boost Your Happiness," CNBC, November 10, 2017

Shopping for a New or Used Car



Should you buy a brand-new car or a used one? Consider these factors.

It's time to replace your current car. But should you buy a new car or a used one? Consider the following advantages and disadvantages of each as you shop around for the vehicle that's right for you.

Buying a new car

Advantages. That new-car smell, a clean interior, and the latest technology and safety features...there's no denying the appeal of buying a new car. Aesthetics aside, there is an additional advantage to buying new: starting with a blank slate. You won't need to worry about how the previous driver treated the vehicle. Ownership of a new car comes with the freedom to decide whether to modify the vehicle, how much to drive it, and how much insurance to carry (although your lender may impose some minimum requirements if you take out a loan to buy the car). Bear in mind that there are also state requirements as to how much insurance you need.

The warranty on a new car is typically much better than a used one, offering you greater protection against any defects that may cause your car to malfunction in the first few years of ownership. A new vehicle also comes with benefits like roadside assistance, higher fuel efficiency standards, and the latest safety features. These features help make your car safer to drive, which can provide you with peace of mind.

Disadvantages. The major downside of buying a new car is the hit it will take on your wallet. New cars tend to cost more than used cars for the same make and model, and they also depreciate in value more quickly. In fact, a vehicle loses the majority of its value in the first few years of ownership.

And remember, your new car won't stay new forever. Eventually, the new-car smell will fade, dents and scratches could appear, and the interior will experience wear and tear.

Buying a used car

Advantages. Even if you can afford a new car, buying a used car can be a smart alternative. In addition to saving on the upfront cost, you're also likely to save on insurance because used cars tend to be less expensive to insure than new cars.

Compared to new vehicles, used vehicles tend to depreciate less rapidly. Chances are that a used car's previous owner paid for the bulk of depreciation.

Since most modern cars can go 100,000 miles or more with few mechanical problems, you

might not even notice a difference between buying a late-model used car with low mileage and buying a new car.

Disadvantages. A used vehicle comes with many unknowns. You probably won't know why it was traded in or how it was treated by the previous owner. As a result, you may need to be prepared to pay for required maintenance sooner than you would on a new car. You'll want to have a reputable mechanic check out a used vehicle before you buy it. Though you'll have to pay a mechanic for this service, it could end up saving you from paying costly repair bills down the road.

Bear in mind that your choice of models and options is much more limited if you decide to buy a used car. If you have your heart set on a specific kind of car or certain features, this might mean that you'll need to spend a much longer time shopping around.

Additional considerations

Whether you choose to buy a new or used car, make sure you consider the following questions as you go through the car shopping process:

- What do you like and dislike about your current car?
- How will you use the car? Will it be a commuter vehicle that's driven on highways daily, or will it be used less frequently around town?
- Do you need a larger car with a roomy trunk and plenty of seating to accommodate your family, or will a smaller two-door car suit your needs?
- What kinds of features are on your wish list? Do you want a car with the latest technology, or one with a leather interior? Is there a particular body style that you'd favor over another?

If you prefer to trade in your car for a new one every few years, explore leasing as an alternative to buying a new car. Monthly lease payments are generally lower than the payments on a loan to purchase the same vehicle. But leasing a car could mean that you're required to carry more insurance than if you purchase the car. Plus, lease contracts can be confusing, so make sure you know exactly how they work to avoid paying more than you need to.

Buying a car is an important financial decision. Do your research and understand how this purchase will affect you in the short term and the long term to make the most out of your new ride.

Emerald Spectrum Advisory

Malissia Johnson,
CFP®, AAMS, CMFC
Brian Johnson, CFP®
100 Winners Cir N, Ste 210
Brentwood, TN 37027
615-369-0690
esateam@emeraldspectrum.com
www.emeraldspectrum.com

The accompanying pages have been developed by an independent third party. Commonwealth Financial Network is not responsible for their content and does not guarantee their accuracy or completeness, and they should not be relied upon as such. These materials are general in nature and do not address your specific situation. For your specific investment needs, please discuss your individual circumstances with your representative. Commonwealth does not provide tax or legal advice, and nothing in the accompanying pages should be construed as specific tax or legal advice. Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a registered investment adviser. Fixed insurance products and services offered by Emerald Spectrum Advisory are separate and unrelated to Commonwealth.



What is the federal funds rate?

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve (the Fed), usually overnight, in order to meet federally mandated reserve requirements. Basically, if a bank is unable to meet its reserve requirements at the end of the day, it borrows money from a bank with extra reserves. The federal funds rate is what banks charge each other for overnight loans. This rate is referred to as the federal funds effective rate and is negotiated between borrowing and lending banks.

The Federal Open Market Committee sets a target for the federal funds rate. The Fed does not directly control consumer savings or credit rates directly; it can't require that banks use the federal funds rate for loans. Instead, the Fed lowers the federal funds rate by buying government-backed securities (usually U.S. Treasuries) from banks, which adds to the banks' reserves. Having excess reserves, banks will lower their lending rates for overnight loans in order to make some interest on the excess reserves. To raise rates, the Fed sells securities to banks, decreasing the banks'

reserves. If enough banks need to borrow to meet overnight reserve requirements, banks with extra reserves will raise their lending rates.

The federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts, and short-term bonds. Banks also base the prime rate on the federal funds rate. Banks often use the prime rate as the basis for interest rates on deposits, bank loans, credit cards, and mortgages.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to \$250,000 per depositor, per insured institution. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest.

Source: Federal Reserve, 2018



Can the federal funds rate affect the economy?

The Federal Open Market Committee (FOMC) is the policymaking branch of the Federal Reserve. One of its primary responsibilities is setting the federal funds target rate. The FOMC meets eight times per year, after which it announces any changes to the target rate. The Federal Reserve (the Fed), through the FOMC, uses the federal funds rate as a means to influence economic growth.

If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages, and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. All of which should stimulate the economy. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

However, if money is too plentiful, demand for goods may exceed supply, which can lead to increasing prices. As prices increase (inflation), demand for goods decreases, slowing overall economic growth. When the economy recedes, the need for labor decreases, unemployment grows, and wage growth slows. To counteract rising inflation, the Fed raises the target rate. When interest rates on loans and mortgages move higher, money becomes more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

The Fed monitors many economic reports that track inflationary trends and economic growth. The Fed's preferred measure of inflation is the Price Index for Personal Consumption Expenditures produced by the Department of Commerce. To forecast economic growth, the Fed looks at changes in gross domestic product and the unemployment rate, along with several other economic indicators, such as durable goods orders, housing sales, and business fixed investment.

Source: Federal Reserve, 2018