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Dear Friends:

My family bookends each summer with a camping weekend in Copper Harbor around Memorial Day and Labor Day. We look forward to those trips as they provide a much-appreciated chance to disconnect and relax. The trips signal for us the changing of the seasons and, for the kids especially, the Labor Day trip marks the beginning of a new adventure as school resumes. I only barely recall the mix of feelings I had when anticipating the start of a new school year: nervousness, excitement, anxiety, disbelief. I suspect many of you experience a similar mix of emotions when you think about our choices in the upcoming Presidential election. The only consolation for me is that because of our country's system of government with checks and balances, the President has limited power. Nonetheless, I'd rather be worrying about whether I got my favorite teacher.

Jesse
September 2016

Investors Are Human, Too

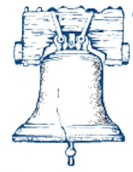
How to Get a Bigger Social Security Retirement Benefit

The Importance of Saving for Retirement at a Young Age

Should I pay off my student loans early or contribute to my workplace 401(k)?



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Investors Are Human, Too



In 1981, the Nobel Prize-winning economist Robert Shiller published a groundbreaking study that contradicted a prevailing theory that markets are always efficient. If they

were, stock prices would generally mirror the growth in earnings and dividends. Shiller's research showed that stock prices fluctuate more often than changes in companies' intrinsic valuations (such as dividend yield) would suggest.¹

Shiller concluded that asset prices sometimes move erratically in the short term simply because investor behavior can be influenced by emotions such as greed and fear. Many investors would agree that it's sometimes difficult to stay calm and act rationally, especially when unexpected events upset the financial markets.

Researchers in the field of behavioral finance have studied how cognitive biases in human thinking can affect investor behavior. Understanding the influence of human nature might help you overcome these common psychological traps.

Herd mentality

Individuals may be convinced by their peers to follow trends, even if it's not in their own best interests. Shiller proposed that human psychology is the reason that "bubbles" form in asset markets. Investor enthusiasm ("irrational exuberance") and a herd mentality can create excessive demand for "hot" investments. Investors often chase returns and drive up prices until they become very expensive relative to long-term values.

Past performance, however, does not guarantee future results, and bubbles eventually burst. Investors who follow the crowd can harm long-term portfolio returns by fleeing the stock market after it falls and/or waiting too long (until prices have already risen) to reinvest.

Availability bias

This mental shortcut leads people to base judgments on examples that immediately come to mind, rather than examining alternatives. It may cause you to misperceive the likelihood or frequency of events, in the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean.

Confirmation bias

People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be likely to ignore critical facts and focus on data that supports your opinion.

Overconfidence

Individuals often overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

Loss aversion

Research shows that investors tend to dislike losses much more than they enjoy gains, so it can actually be painful to deal with financial losses.² Consequently, you might avoid selling an investment that would realize a loss even though the sale may be an appropriate course of action. The intense fear of losing money may even be paralyzing.

It's important to slow down the process and try to consider all relevant factors and possible outcomes when making financial decisions. Having a long-term perspective and sticking with a thoughtfully crafted investing strategy may also help you avoid expensive, emotion-driven mistakes.

Note: All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

¹ *The Economist*, "What's Wrong with Finance?" May 1, 2015

² *The Wall Street Journal*, "Why an Economist Plays Powerball," January 12, 2016



Sign up for a my Social Security account at ssa.gov to view your online Social Security Statement. It contains a detailed record of your earnings, as well as benefit estimates and other information about Social Security.

¹ Social Security Administration, Annual Statistical Supplement, 2015

How to Get a Bigger Social Security Retirement Benefit

Many people decide to begin receiving early Social Security retirement benefits. In fact, according to the Social Security Administration, about 72% of retired workers receive benefits prior to their full retirement age.¹ But waiting longer could significantly increase your monthly retirement income, so weigh your options carefully before making a decision.

Timing counts

Your monthly Social Security retirement benefit is based on your lifetime earnings. Your base benefit--the amount you'll receive at full retirement age--is calculated using a formula that takes into account your 35 highest earnings years.

If you file for retirement benefits before reaching full retirement age (66 to 67, depending on your birth year), your benefit will be permanently reduced. For example, at age 62, each benefit check will be 25% to 30% less than it would have been had you waited and claimed your benefit at full retirement age (see table).

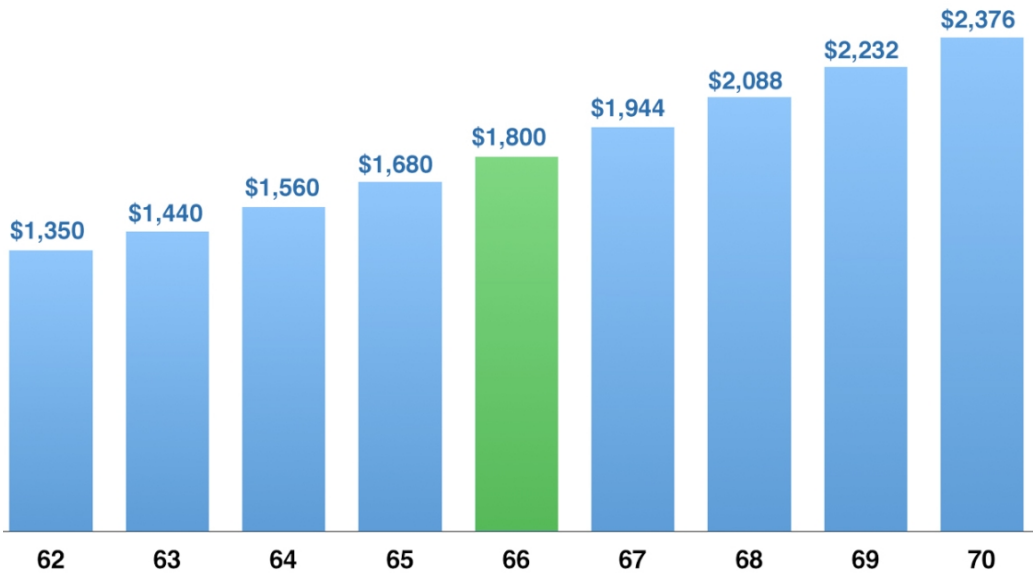
Alternatively, if you postpone filing for benefits past your full retirement age, you'll earn delayed retirement credits for each month you wait, up until age 70. Delayed retirement credits will increase the amount you receive by about 8% per year if you were born in 1943 or later.

The chart below shows how a monthly benefit of \$1,800 at full retirement age (66) would be affected if claimed as early as age 62 or as late as age 70. This is a hypothetical example used for illustrative purposes only; your benefits and results will vary.

Birth year	Full retirement age	Percentage reduction at age 62
1943-1954	66	25%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 or later	67	30%

Early or late?

Should you begin receiving Social Security benefits early, or wait until full retirement age or even longer? If you absolutely need the money right away, your decision is clear-cut; otherwise, there's no "right" answer. But take time to make an informed, well-reasoned decision. Consider factors such as how much retirement income you'll need, your life expectancy, how your spouse or survivors might be affected, whether you plan to work after you start receiving benefits, and how your income taxes might be affected.





Millennials and Retirement Planning

A September 2015 study found that 60% of millennials think planning for retirement is harder than sticking with a diet and exercise plan. By contrast, 61% of baby boomers think dieting/exercising is harder, and 51% of Gen Xers think retirement planning is harder.

Source: "Will Millennials Ever Be Able to Retire?" Insured Retirement Institute and The Center for Generational Kinetics, September 2015

The Importance of Saving for Retirement at a Young Age

If you're an adult in your 20s, you are entering an exciting stage of life. Whether you've just graduated from college or are starting a new career, you will encounter many opportunities and challenges as you create a life of your own.

As busy as you are, it's no surprise that retirement may seem a long way off, especially if you're just entering the workforce. What you may not realize, however, is that there are four very important advantages to begin planning and saving for retirement now.

1. Money management skills

Now that you're out on your own, it's important to start taking responsibility for your finances little by little. Part of developing financial responsibility is learning to balance future monetary needs with present expenses. Sometimes that means saving for a short-term goal (for example, buying a new car) and a long-term goal (for example, retirement) at the same time.

Once you become used to balancing your priorities, it becomes easier to build a budget that takes into account both fixed and discretionary expenses. A budget can help you pursue your financial goals and develop strong money management skills. If you establish healthy money habits in your 20s and stick with these practices as you grow older, you'll have a major advantage as you edge closer to retirement.

2. Time on your side

When you're young, you have the benefit of time on your side when saving for long-term goals (like retirement). You likely have 40-plus years ahead of you in the workforce. With that much time, why not put your money to work using the power of compounding?

Here's a hypothetical example of how compounding works. Let's say that at age 25, you start putting \$300 each month into your employer's retirement savings plan, and your account earns an average of 8% annually. If you continued this practice for the next 40 years, you would have contributed \$144,000 to your account, accumulating just over \$1 million by the time you reached age 65. But if you waited 10 years until age 35 to start making contributions to your plan, you would have accumulated only \$440,000 by age 65.

Note: This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment.

Taxes and investment fees are not considered. Rates of return will vary over time, especially for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of risk. Actual results will vary.

3. Workplace retirement benefits

If your employer offers a workplace retirement plan such as a 401(k) or 403(b), you may find that contributing a percentage of your salary (up to annual contribution limits) will make saving for retirement easier on your budget. Contributions are typically made on a pre-tax basis, which means you can lower your taxable income while building retirement funds for the future. You aren't required to pay any taxes on the growth of your funds until you take withdrawals. Keep in mind that distributions from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn before age 59½.

Depending on the type of plan, your employer may offer to match a percentage of your retirement plan contributions, up to specific limits, which can potentially result in greater compounded growth and a larger sum available to you in retirement.

If you don't have access to a workplace retirement savings plan, consider opening an IRA and contribute as much as allowable each year. An IRA may offer more investment options and certain tax advantages to you.

If you have both a workplace plan and an IRA, one strategy is to contribute sufficient funds to your workplace plan to take advantage of the full company match, and then invest additional funds in an IRA (up to annual contribution limits). Explore the options available to find out what works best for your financial situation.

4. Flexibility of youth

Although there's a good chance you have student loans, you probably have fewer financial responsibilities than someone who is older and/or married with children. This means you may have an easier time freeing up extra dollars to dedicate toward retirement. Get into the retirement saving habit now, so that when future financial obligations arise, you won't have to fit in saving for retirement too--you'll already be doing it.



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Should I pay off my student loans early or contribute to my workplace 401(k)?

For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt [report](#) by The Institute for College Access and Success, nearly 70% of college grads in the class of 2014 had student debt, and their average debt was nearly \$29,000. This equates to a monthly payment of \$294, assuming a 4% interest rate and a standard 10-year repayment term.

Let's assume you have a \$300 monthly student loan payment. You have to pay it each month--that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you

shouldn't leave this free money on the table. For example, let's assume your employer matches \$1 for every dollar you save in your 401(k), up to 6% of your pay. If you make \$50,000 a year, 6% of your pay is \$3,000. So at a minimum, you should consider contributing \$3,000 per year to your 401(k)--or \$250 per month--to get the full \$3,000 match. That's potentially a 100% return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.



I have matured U.S. savings bonds. Are they still earning interest and, if not, can I roll them over to another savings bond?

Once U.S. savings bonds have reached maturity, they stop earning interest. Prior to 2004, you could convert your Series E or EE savings bonds for Series HH bonds. This would have allowed you to continue earning tax-deferred interest. However, after August 31, 2004, the government discontinued the exchange of any form of savings bonds for HH bonds, so that option is no longer available.

Since matured savings bonds no longer earn interest, there is no financial benefit to holding on to them. If you have paper bonds, you can cash them in at most financial institutions, such as banks or credit unions. However, it's a good idea to call a specific institution before going there to be sure it will redeem your bonds. As an alternative, you can mail them to the Treasury Retail Securities Site, PO Box 214, Minneapolis, MN 55480, where they will be redeemed. If you have electronic bonds, log on to treasurydirect.gov and follow the directions there. The proceeds from your redeemed bonds can be deposited directly into your checking or savings account for a relatively

quick turnover.

Another important reason to redeem your matured savings bonds may be because savings bond interest earnings, which can be deferred, are subject to federal income tax when the bond matures or is otherwise redeemed, whichever occurs first. So if you haven't previously reported savings bond interest earnings, you must do so when the bond matures, even if you don't redeem the bonds.

Using the money for higher education may keep you from paying federal income tax on your savings bond interest. The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE and I bonds issued after 1989 when the bond owner pays qualified higher-education expenses at an eligible institution. However, there are very specific requirements that must be met in order to qualify, so consult with your tax professional.



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