S.F. EHRLICH ASSOCIATES, INC.

December 31, 2024

Managing Your Money

STAN'S WORLD — WHAT AM I GOING TO DO?

Let me start by wishing everyone a Happy and Healthy New Year. I hope 2025 proves to be a good year for all of us.

As I look back at 2024, a few things changed for me. As per my plan with John, I spent less time at the office while John added more tasks to his work portfolio. While I'm still engaged in our financial planning practice, I've cut back.

Having extra hours each day puts me on the receiving end of a discussion I often initiated with clients over the years. As they (you) approached and entered retirement, I typically asked: "We know what you're not going to do (i.e., work), but what are you going to do?"

When I had those discussions with clients, I often heard a lot of hemming and hawing. Clients had spent so much time figuring out how to get to the end of their working life that they hadn't committed much time to think about what they would do on the other side. And therein lies the rub for me: I've barely given any time thinking about 'what's next?'

Unlike clients whose jobs often ended on a specific date, my work life hasn't come to a complete stop. While my schedule is more flexible, there are several tasks I still perform. I also have the liberty of doing more if the opportunity arises. But the time I spend on work will continue to compress, while my non-work time will likely expand.

That puts me in the same position so many of you have faced and the rest of you will eventually address. We write about or discuss post-retirement activities with our clients because staying meaningfully engaged is important after you end your career. It's important for multiple reasons: mental health, physical health, and self-worth, to name a few.

I recall starting the 'what's next' discussion with Pearl when she retired from teaching, only to be told she would figure it out. (She has and did.) But now it's my turn. Much like the tale of the shoemaker whose children don't have shoes, I'm the planner who has yet to plan the non-financial portion of my retirement.

STAN'S WORLD — WHAT AM I GOING TO DO? (CONT'D)

Suffice it to say I'll continue to explore my options as the days go by. I never told clients the 'next act' was easy, so I'm not surprised at the degree of difficulty I'm having. After all, the follow-up to a terrific career will take a little work, but I think I'm up to the task. If you have any thoughts, it's my turn to listen.

FUN WITH CHARTS

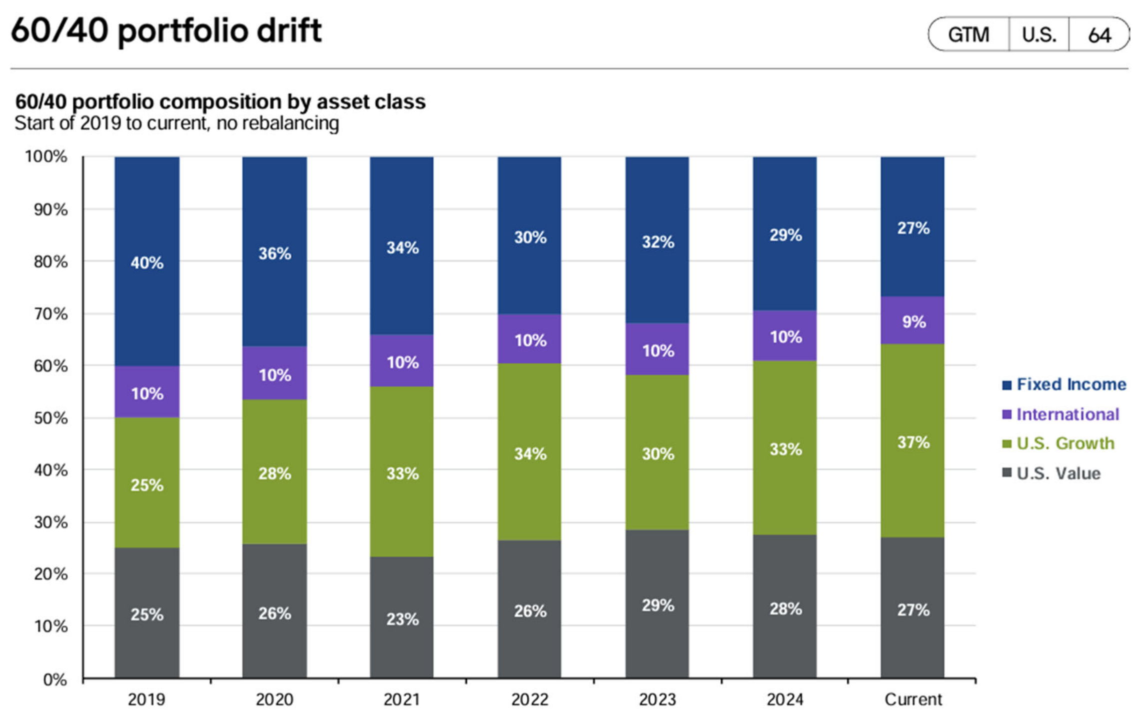
Rebalancing—A Visual Representation

Part of our role in managing your money is to do so in a tax-efficient way. Excessive trading, for example, doesn't necessarily translate into better returns. In fact, it can often lead to unnecessary taxes and excessive costs.

Equally important is measuring risk. If investors invest too much in equities, for example, they may not be able to tolerate substantial losses in the stock market. Thus, rebalancing portfolios over time can potentially address these types of issues.

The chart below[1] depicts what happened to a 60/40 portfolio from 2019 that was initially invested in 40% fixed income, 25% US growth stocks, 25% US value stocks, and 10% international stocks.

If left unmanaged, the current portfolio would be too risky for many investors, potentially putting them at serious risk if the market was to drop significantly.



Source: Bloomberg, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Standard asset allocation at the start of 2019 assumes 60% weight to global equities and 40% to U.S. fixed Income. U.S. Value: Equal-weighted Russell 1000 Value and Russell 2000 Value, U.S. Growth: Equal-weighted Russell 2000 Value and Russell 2000 Growth, International: MSCI ACWI ex-US, Fixed Income: 10% Bloomberg Global HY Index and 30% Bloomberg U.S. Aggregate. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2024.

J.P.Morgan
ASSET MANAGEMENT

FUN WITH CHARTS (CONT'D)

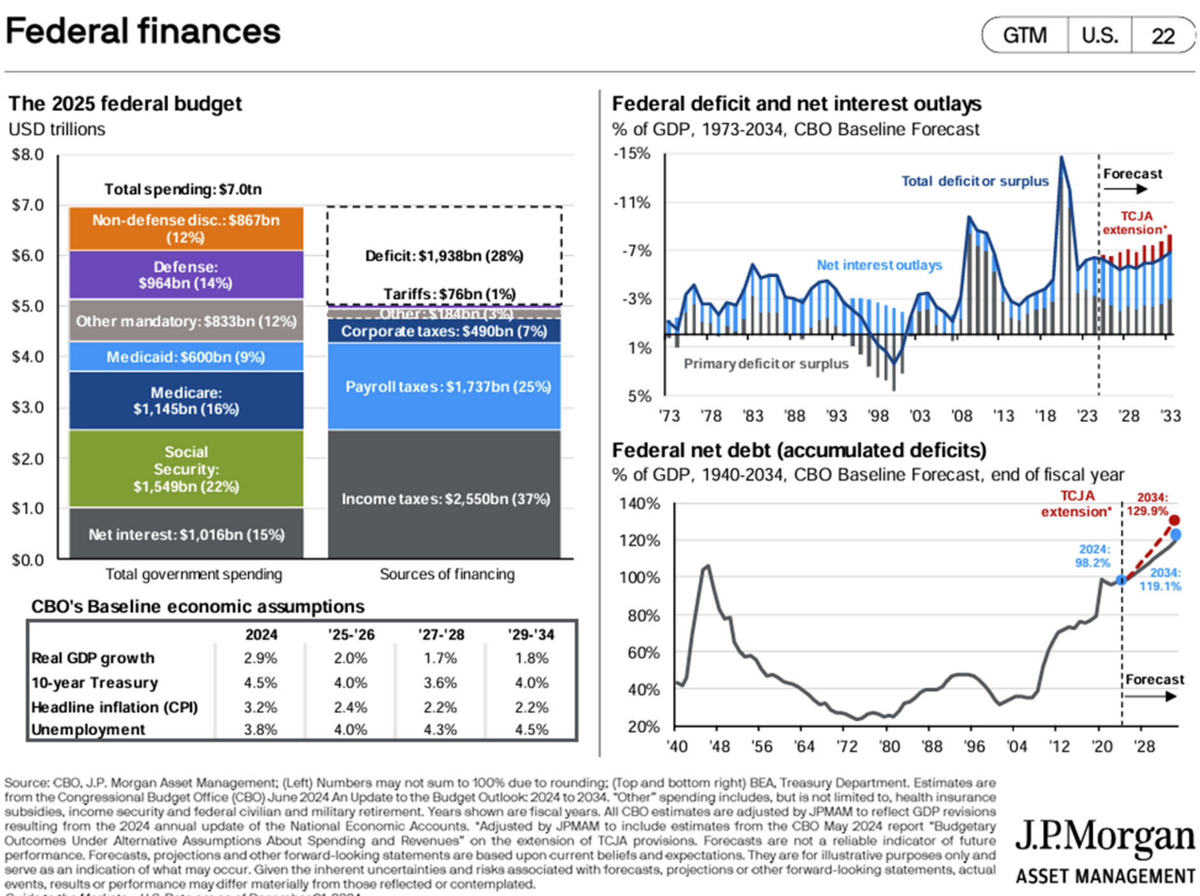
Can you get to $2 trillion?

With a new administration taking office in January, there has been substantial discussion in recent months about cutting the federal budget by up to $2 trillion. While the number is imposing, let's consider where our tax dollars are spent.

Reviewing the chart below[2], total spending is approximately $7 trillion, which includes:

- Defense spending: 14%
- Net interest on US debt: 15%
- Social Security: 22%
- Medicare: 16%
- Medicaid: 9%
- Other mandatory spending: 12%
- Non-defense discretionary spending: 12%

Large cuts could prove difficult, considering that Medicare, Social Security, Medicaid, defense, and net interest total more than $6 trillion.



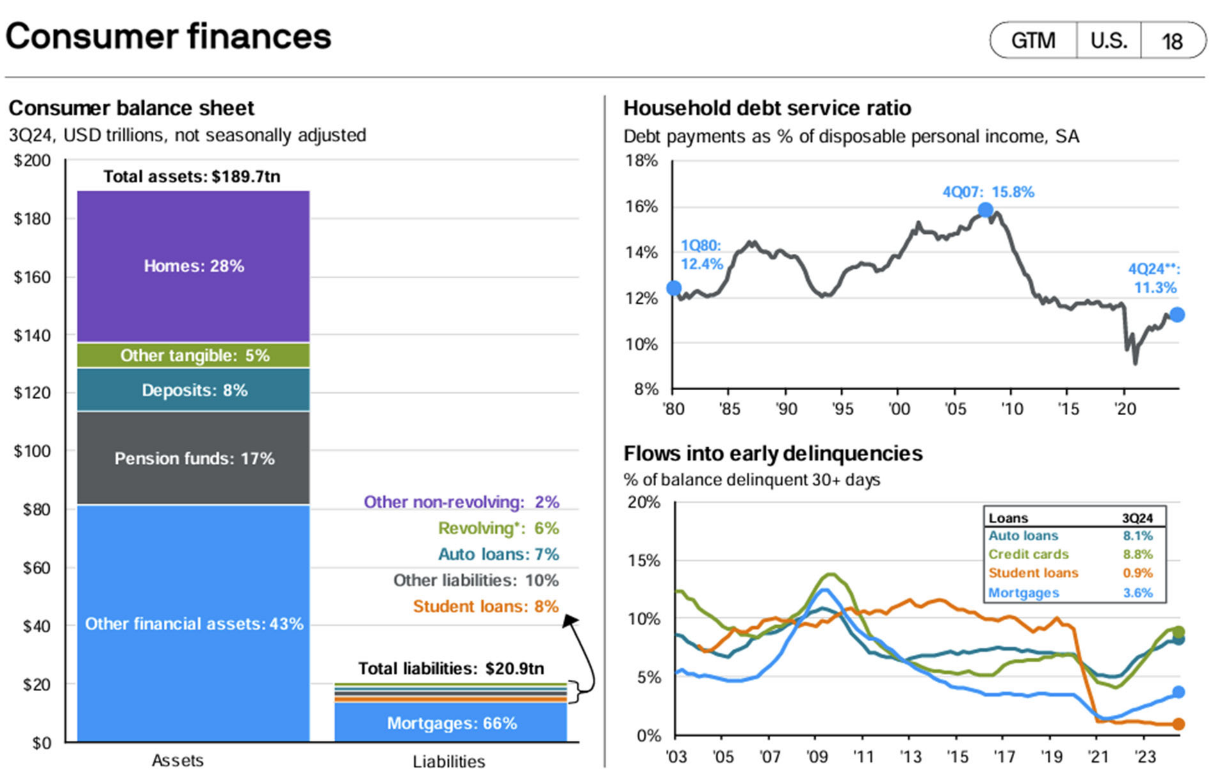
FUN WITH CHARTS (CONT'D)

Consumer finances: early signs of worry?

While the consumer balance sheet may look strong (see the chart below), looks can be deceiving. Two charts[3] in particular point to some concerns ahead.

The first, household debt service ratio (top right, below), shows debt payments as a percentage of disposable personal income increasing to 11.3%. While some increase from the COVID lockdown was expected, the increase is still worth noting. The reason: the more consumers spend on debt, the less they can spend on other purchases that help keep the economy humming.

The chart in the bottom right corner (below) shows debt delinquencies, which are also rising. When consumers get overburdened with debt, they must prioritize which debts they can afford each month. As the chart shows, delinquencies for mortgages (3.6%), credit cards (8.8%), and auto loans (8.1%) are all on the increase. Those are numbers to watch because when consumers can't satisfy their debt, there may be potential consequences for the economy.



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **4Q24 figures for debt service ratio are J.P. Morgan Asset Management estimates. Household debt service ratio data from 1Q80 to 4Q04 are J.P. Morgan Asset Management estimates. Due to the moratorium on delinquent student loan payments being reported to credit bureaus, missed federal student loan payments will not be reported until 4Q24.
Guide to the Markets – U.S. Data are as of December 31, 2024.

AGING PARENTS AND ADULT CHILDREN – IT'S TIME TO TALK

We deal with families, so we understand some of the dynamics between adult children and aging parents. In many households, we know it isn't easy to talk about money from an inter-generational perspective. In some instances, elderly parents are not likely to want their adult children to know they may not have enough money to last their entire lives. In other instances, adult children may be making (poor) spending decisions because they assume they will be left a bigger inheritance than they're likely to receive. Suffice it to say that money is a sensitive subject.

If you're an adult child whose parent(s) may outlive their savings, will you be able to pay for college for your children, save for your retirement, and contribute to funding your parents' lifestyle? And if you're a senior, think of the pressure your child(ren) may be under if they don't know your financial situation.

Charles Schwab[4] offers a few tips on how adult children can speak to their parents about money.

- <u>Start slowly and try to meet your parents where they are</u>: If you don't have the right words to use, or the topic is especially awkward, try telling a story about a friend. Tell a story about a friend whose dad lost his passwords, and your friend couldn't help him. Or a friend whose mother needed help paying bills. These discussions about 'others' may allow your parent to open up about issues he/she has been reluctant to discuss. You may find your parent wants to discuss these topics but don't have the right words to initiate the conversation.
- <u>Consider getting these four documents in place</u>: You've read this here before, but it's always worth repeating. These four documents will aid you in managing the affairs of your parent(s):
    - Revocable living trust: "This allows your parents to appoint a trustee who can manage the trust and the assets in the event of incapacity."
    - Power of attorney (POA): "This legal document gives a trusted individual control over any financial matters your parents specify, such as paying bills, making gifts, or managing property. Without a POA, a court may need to appoint a conservator to manage their financial affairs."
    - Advance directive: "Also called a living will, this legally binding document allows a person to spell out their preferences regarding medical intervention and end-of-life care." In addition, a health care proxy "gives a loved one the legal authority to make medical decisions regarding any situations not covered by the directive."
    - HIPAA authorization: "A signed HIPAA authorization form would allow you to speak with your parents' doctors about their medical situation."

AGING PARENTS AND ADULT CHILDREN – IT'S TIME TO TALK (CONT'D)

- Explore if you will need to provide support for your parents as they age: Sometimes, support is more than money. Support is often about caregiving. "If you can get your parents to open up and share their financial picture with you, it could help you determine whether they are in good shape or if you're going to need to supplement. If it's the latter, knowing in advance gives you time to start saving and planning for that inevitability."
- Find out if your parents have long-term care insurance: The longer we live, the more likely the probability of needing some form of long-term care. If your parents have a long-term care policy, it can be a huge help in paying for those types of expenses.
- Alert your parents to scams: While many of us can fall victim to a scam, a person with early-onset dementia or other memory issues is far more likely to be victimized. In addition to outright fraud, seniors may unknowingly sign up for costly subscription services. Share stories with your parents about friends who were victimized so they better understand that anyone can be a victim. And "Suggest that your parents add a trusted contact to their financial accounts," which will allow you to address problems you may uncover more quickly.

"Money conversations with parents can feel heavy and uncomfortable, but once you have them, both you and your parents will likely feel relieved. Your parents can feel good knowing they have your support and their wishes and legacy will be honored. And you can feel relieved knowing what you may be up against, potentially needing to save extra to support your parents, or helping to honor your parents' wishes as they age."

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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[1] "60/40 Portfolio Drift," Slide 64, Guide to the Markets, J.P. Morgan. December 31, 2024.
[2] "Federal Finances," Slide 22, Guide to the Markets, J.P. Morgan. December 31, 2024.
[3] "Consumer Finances," Slide 18, Guide to the Markets, J.P. Morgan. December 31, 2024.
[4] Bidner, Jeannie. "Aging Parents? 5 Money Topics to Discuss." Schwab Brokerage, 8 Nov. 2023, www.schwab.com/learn/story/aging-parents-5-money-topics-to-discuss.