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Thank you for taking a few minutes to read our newsletter. We've hand-picked the following articles in response to questions that we have been hearing from our clients and radio listeners over recent months; we hope you find them valuable!

In this issue of our quarterly newsletter we turn our focus inward, looking at what financial independence means to you, and the toll that procrastination can take on our long term financial goals. Also, if you have ever wondered why inflation garners so much attention from analysts, look no further than our chart on page 4 outlining the impact inflation can have on the real return on your investments.

Be sure to tune in to AM790, weeknights at 5PM, to hear Don, Steven, Donna and Nathan discuss the topics that matter to you on the MoneyTalk radio program. Missed tonight's show? Listen in to the MoneyTalk Podcast at sowafinancial.com/moneytalk-radio , or by searching "DON SOWA'S MONEYTALK" wherever you get your podcasts!

Q3 - 2019

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Your Money Matters.

Is It Time to Declare Your Financial Independence?

No matter how much money you have or which life stage you're in, becoming financially independent starts with a dream. Your dream might be to finally pay off the mountain of debt you've accumulated, or to stop relying on someone else for financial support. Or perhaps your dream is to retire early so you can spend more time with your family, travel the world, or open your own business. Financial independence, however you define it, is freedom from the financial obstacles that are keeping you from living life on your own terms.

Envision the future

If you were to become financially independent, what would change? Would you spend your time differently? Live in another place? What would you own? Would you work part-time? Ultimately, you want to define how you choose to live your life. It's your dream, so there's no wrong answer.

Work at it

Unless you're already wealthy, you may have had moments when winning the lottery seemed like the only way to become financially secure. But your path to financial independence isn't likely to start at your local convenience store's lottery counter.

Though there are many ways to become financially independent, most of them require hard work. And retaining wealth isn't necessarily easy, because wealth may not last if spending isn't kept in check. As income rises, lifestyle inflation is a real concern. Becoming — and remaining — financially independent requires diligently balancing earning, spending, and saving.

Earn more, spend wisely, and save aggressively

Earn more. The bigger the gap between your income and expenses, the quicker it will be to become financially independent, no matter what your goal is. The more you can earn, the more you can potentially save. This might mean finding a job with a higher salary, working an extra job, or working part-time in retirement. And a job is just one source of income. If you're resourceful and able to put in extra hours, you may also be able to generate regular income in other ways — for example, renting out a garage apartment or starting a side business.

Spend wisely. Look for opportunities to reduce your spending without affecting your quality of life. For the biggest impact, focus on reducing your largest expenses — for example, housing, food, and transportation. Practicing mindful spending can also help you free up more money to save. Before you buy something nonessential, think about how important it is to you and what value it brings to your life so that you don't end up with a garage or attic filled with regrettable purchases.

Save aggressively. Set a wealth accumulation goal and then prioritize saving. Of course, if you have a substantial amount of debt, saving may be somewhat curtailed until that debt is paid off. Take simple steps such as choosing investments that match your goals and time frame, and paying yourself first by automatically investing as much as possible in a retirement savings plan. Time is an important ally in the quest for financial independence, so start saving as early as possible and build your nest egg over time. (Note that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.)

Keep going

Make adjustments. Life changes. Unexpected bills come up. Some years will be tougher financially than others. Expect to make some adjustments to your plan along the way, especially if you have a long-term time frame, but keep going.

Track your progress. Celebrate both small milestones and big victories. Seeing the progress you're making will help you stay motivated as you pursue your dream of financial independence.

Why Not Do It Now? New Research on Procrastination

Advantage of an Early Start

Saving for retirement may be a low priority when you're young, especially if you're earning a low salary. But starting early can make a big difference, as you can see in the accompanying chart.

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. It assumes a monthly deferral of salary and monthly compounding of earnings. Fees, expenses, and taxes were not considered and would reduce the performance shown if they were included. Actual results will vary.

Do you have a tendency to push off important tasks? Do you do things at the last minute, or maybe not do them at all? If so, you're not alone. About one in five adults is a chronic procrastinator.[1]

Procrastination can be frustrating in the short term for even the simplest tasks. But it can have far-reaching effects on important activities and decisions such as completing work projects, obtaining medical treatment, and saving for retirement. Recent research offers insights that may be helpful if you or someone you know has a tendency to procrastinate.

Blame the brain

A study using brain scans found that the amygdala, the almond-shaped structure in the temporal lobe of the brain that processes emotions (including fear), was larger in chronic procrastinators, and there were weaker connections between the amygdala and a part of the brain called the dorsal anterior cingulate cortex (DACC). The amygdala warns of potential dangers, and the DACC processes information from the amygdala and decides what action a body will take.[2]

According to the researchers, procrastinators may feel more anxiety about the potential negative effects of an action and be less able to filter out interfering emotions and distractions. The good news is that it is possible to shrink the amygdala and improve brain connectivity through mindfulness meditation exercises.[3]

What's important to you?

Another recent study found that people were less likely to procrastinate about tasks that they personally considered important and were within their own control, as opposed to tasks that were assigned to them and/or controlled by others. This is probably not surprising, but it suggests that procrastination may not be a "weakness" but rather a result of personal values and choices.[4]

Tips for procrastinators

Here are a few suggestions that may help overcome a tendency to procrastinate.

Consider the triggers. One researcher found that people are more likely to procrastinate if a task is characterized by one or more of these seven triggers: boring, frustrating, difficult, ambiguous, unstructured, not intrinsically rewarding, or lacking in personal meaning.[5] You might try to identify the triggers that are holding you back and take steps to address those specific problems. For example, if a task seems too difficult, ambiguous, or unstructured, you could break it down into smaller, more definite, and manageable tasks.

Meet your resistance. If you don't want to work on a task for an hour, determine how long you are willing to work on it. Can you work on it for 30 minutes? What about 15? If you don't want to do it today, what day would be better?

List the costs and benefits. For big projects, such as saving for retirement, make a list of all the negative ways not making progress could affect your life and all the positive outcomes if you were to achieve your objectives. Imagine yourself succeeding.

Take the plunge. Although a big project may seem daunting, getting a start — any start — could reduce the anxiety. This might be just a small first step: a list, a phone call, an email, or some Internet research. For a written project, you might start with a rough draft, knowing you can polish and improve it later.

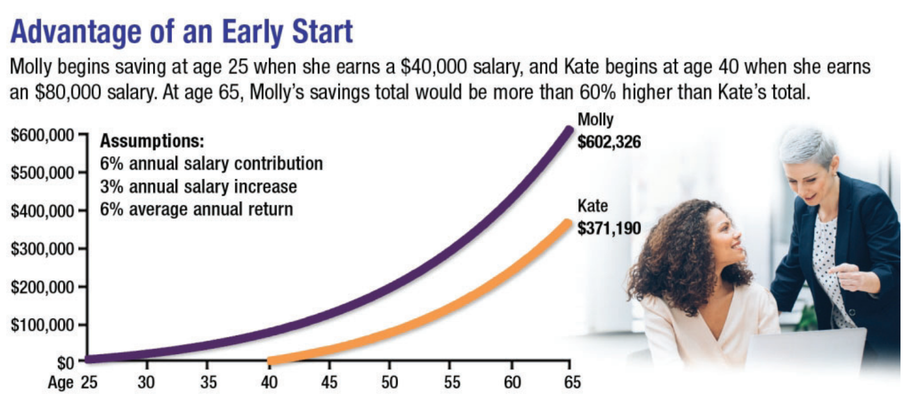
Forgive yourself. If you've postponed a task, don't waste time feeling guilty. In most cases, "better late than never" really does apply!

[1] *Frontiers in Psychology,* July 5, 2018

[2-3] BBC News, August 26, 2018

[4] *Psychology Today,* January 9, 2018

[5] *Harvard Business Review,* October 4, 2017



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Charitable Giving After Tax Reform

Some of the recent changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from your charitable contributions. Incorporating charitable giving into your year-end tax planning may be even more important now. If you are age 70½ or older and have a traditional IRA, you may wish to consider a qualified charitable distribution.

Tax reform changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from charitable giving. Projecting how you'll be affected by these changes while there's still time to take action is important.

Income tax benefit of charitable giving

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. However, many itemized deductions have been eliminated or restricted, and the standard deduction has substantially increased. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Taxpayers whose total itemized deductions other than charitable contributions would be less than the standard deduction (including adjustments for being blind or age 65 or older) effectively have less of a tax savings incentive to make charitable gifts. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of $15,000. They would have a standard deduction of $27,000 in 2019. The couple would effectively receive no tax savings for the first $12,000 of charitable contributions they make. Even with a $12,000 charitable deduction, total itemized deductions of $27,000 would not exceed their standard deduction.

Taxpayers whose total itemized deductions other than charitable contributions equal or exceed the standard deduction (including adjustments for being blind or age 65 or older) generally receive a tax benefit from charitable contributions equal to the income taxes saved. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of $30,000. They would be entitled to a standard deduction of $27,000 in 2019. If they are in the 24% income tax bracket and make a charitable contribution of $10,000, they would reduce their income taxes by $2,400 ($10,000 charitable deduction x 24% tax rate).

However, the amount of your income tax charitable deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

Year-end tax planning

When making charitable gifts during the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and to time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other itemized deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

Qualified charitable distribution (QCD)

If you are age 70½ or older, you can make tax-free charitable donations directly from your IRAs (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of these QCDs from your gross income each year. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs.

You cannot deduct QCDs as a charitable contribution because the QCD is excluded from your gross income. In order to get a tax benefit from your charitable contribution without this special rule, you would have to itemize deductions, and your charitable deduction could be limited by the percentage of AGI limitations. QCDs may allow you to claim the standard deduction and exclude the QCD from income.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan.

Caution: *Your QCD cannot be made to a private foundation, donor-advised fund, or supporting organization. Further, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.*

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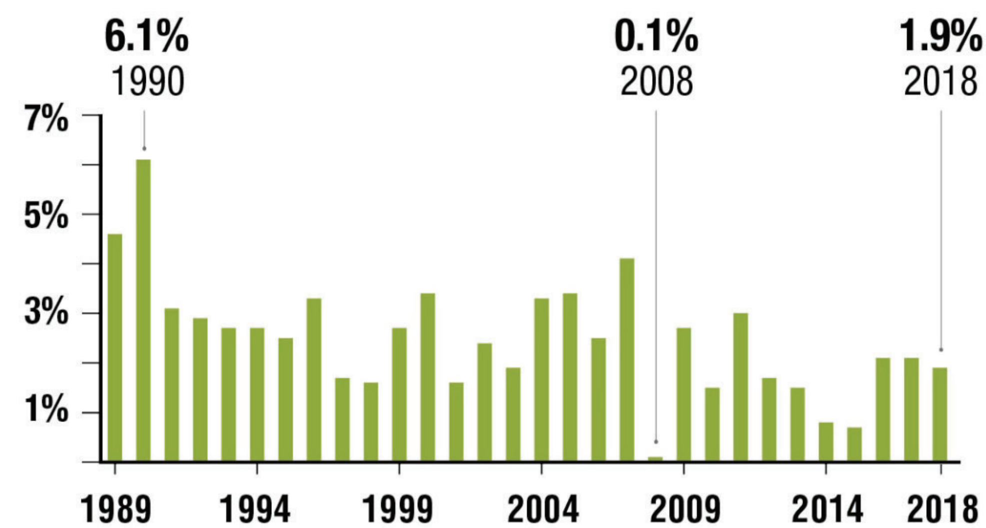
Inflation Variation, Eroding Purchasing Power

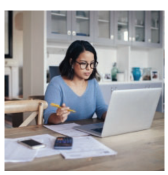
Inflation averaged 2.5% for the 30-year period from 1989 to 2018. Although the recent trend is below the long-term average, even moderate inflation can reduce purchasing power and cut into the real return on your investments.

Annual rate of inflation, based on change in the Consumer Price Index



Source: U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

What's the real return on your investments?



As an investor, you probably pay attention to *nominal return,* which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. However, to estimate actual income or growth potential in order to target financial goals — for example, a certain level of retirement income — it's important to consider the effects of taxes and inflation. The remaining increase or decrease is your *real return.*

Let's say you want to purchase a bank-issued certificate of deposit (CD) because you like the lower risk and fixed interest rate that a CD can offer. Rates on CDs have risen, and you might find a two- or three-year CD that offers as much as 3% interest. That could be appealing, but if you're taxed at the 22% federal income tax rate, roughly 0.66% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 2.34%, but you should consider the purchasing power of the interest. Annual inflation was about 2% from 2016 to 2018, and the 30-year average was 2.5%.[1] After factoring in the effect of inflation, the real return on your CD investment could approach zero and may turn negative if inflation rises. If so, you might lose purchasing power not only on the interest but also on the principal.

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

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. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than their original cost.

[1] U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

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