1919 INVESTMENT COUNSEL
Complexity to Clarity

Women&Wealth

A **BASIC** Path to Prosperity: 5 Financial Steps Every Woman Should Consider

What does it take to achieve financial prosperity? Specifically, how should women approach this goal? These days, these questions come into more focus. Women have more money, power, and are in charge of their own finances now than ever before, and with about one-third of U.S. adults being single, millions of women are running their own households.[1]

Further, 2021 research from Fidelity Investments reports a 50% increase in the number of U.S. women who express more interest in investing since the COVID-19 pandemic began.[2] The research also reports that 67% of women are now investing separately from their employer-sponsored retirement plans (such as 401(k)s), compared to 44% of women in 2018. Young women in particular are taking more action; specifically, 71% of millennial women versus 62% of baby boomer women are investing assets in addition to retirement plans.[3] Despite this increased interest and action to stabilize their financial world, women are yet faced with distinct challenges: financial pressure as a caregiver, experiencing a costly health care event, being underserved by an existing financial professional, not knowing where to start in taking charge of their financial wellness, and the list goes on.

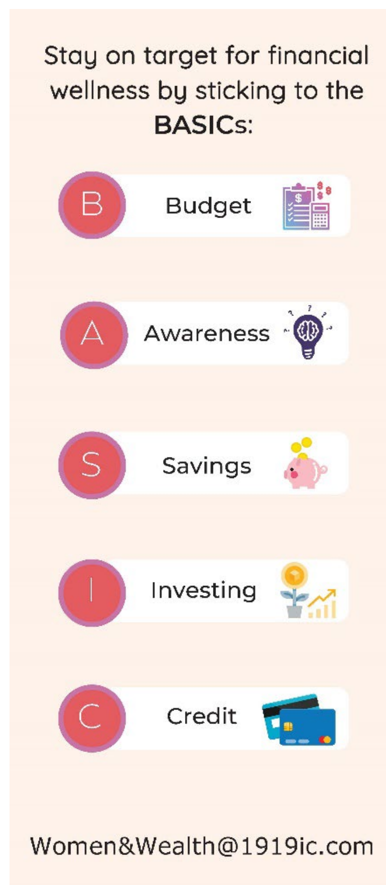
So, how *can* women approach their goal of achieving financial prosperity? At the core are what we call the five **BASIC** steps: **Budget**, **Awareness**, **Savings**, **Investing**, and **Credit**. We believe these concepts apply at any stage in life, but they are especially important to a young woman's financial journey whether single, married, have recently entered the workforce, or are bound for college. Let's get started.

BASICs: BUDGET

In 2017 Fidelity Investments found that nearly half of single women survey respondents admitted they tend to spend money without thinking about the long term.[4] Building a **budget** and more importantly, sticking to it, allows you take an honest look at your spending and be in control of your finances. It also allows you to get comfortable with basic accounting concepts. Whether using an Excel spreadsheet, a Google Sheets document, or a more interactive online option, many of these options are available on the web for free.

Once you build a budget, be disciplined and stick to it. Avoid the trap of mental accounting; it is easy to think you can keep track in your head of what you are spending in a month, or be forgiving to yourself about that 'impulse buy' as a treat because you had a bad day at the office. Also, always look to find opportunities to allocate more to savings and investing when possible.

- Take time to input your income and spending – then break down your spending into categories (groceries, utilities, clothing, entertainment, travel, etc.). Try the 1919 personal expenses worksheet.
- If you see places where you can cut back on spending or if you have extra money left over each month after paying bills, commit to setting some aside in a savings or investment account.
- Here you will find a budget and checklist tool that can help you plan for unexpected events or transitions from one situation to another.



All information is as of September 30, 2022 unless otherwise stated.

BASICs: AWARENESS

Keeping **aware** and understanding the different circumstances that likely will generate an uncertain financial environment at different stages of life, reduces fear and helps you quickly adapt.

For example, women live longer than men and therefore need more savings at retirement to provide the same amount of income as men throughout their lifetime. On average, a 70-year-old woman can expect to live over two years longer than a man.[5] A long life means more years of funding living expenses, which puts pressure on your investments to grow at a strong rate for a longer period of time. Thus, many of us will need our money to last longer in retirement or when we are no longer able to work – even if many choose to retire later.

Get comfortable understanding some economic factors that affect your daily life. For example, the recent increase in inflation has raised the cost of goods and services while reducing the purchasing power of our dollars.

Other factors to be aware of are the changes to retirement savings during your working years. In the past 20 years, the types of employer-sponsored retirement plans have shifted from pension or defined benefit plans (where employers had the full burden of contributions and risk on investments), to 401(k) plans (where the contribution responsibility and investment risk falls to the employees).

BASICs: SAVINGS

With awareness of the multiple factors that can support or obstruct your path to financial prosperity, it's time for action: be prepared for the unexpected by focusing on your **savings**.

[Image Source: iStock]

Once you develop and become comfortable with your budget, you will understand how much excess income you earn each month and can allocate that amount to savings. First, build a small balance cushion (ex. $1,000) that you maintain in your checking account as a buffer to avoid overdrafts and fees. Next, focus on building your emergency fund, which should be worth 3 to 6 months of your current living expenses. With this fund, you will be able to cover bills even during unexpected events like losing a job, caregiving, or a medical emergency. Maintain your emergency fund in cash (checking or savings account) or cash equivalents (e.g. CDs, T-Bills, or money market mutual funds).

BASICs: INVESTING

Savings and **investing** are linked – you need savings to be able to invest. Investing allows for your money to grow over time, but it can be challenging to determine how much and when to start investing. You're not alone with these questions; in 2017, over 90% of single women respondents believed it is important to be engaged in managing their money, but a primary factor they cite as holding them back was saving too heavily in cash.[6]

After having built a robust emergency fund, you are ready to begin investing; keep in mind your various short, intermediate, and long term goals:

- Short Term goals (next 3-5 years): Determine the needs for your paycheck such as a new computer, trips, etc. Keep liquidity for short term spending needs in a checking or a savings account or in assets such as cash or cash equivalents and short term bonds (fixed income).*
- Intermediate Term goals (5 years-lifetime): For expenses such as buying a home, paying a deposit on an apartment, or starting a business. Use taxable savings or a brokerage account and assets such as stocks, short term or intermediate term bonds.*
- Long Term Goals (retirement and your legacy): For expenses such as retirement, leaving a legacy for family members, giving to charities, or making an impact on society, etc. Assets such as stocks, bonds, and potentially alternative assets (ex. real estate, commodities, hedge funds, or private equity) can be the right approach using vehicles such as certain forms of trusts and charitable giving funds.*

*These are general examples of vehicles and asset types that investors might consider given goals with different time horizons. This is not a specific recommendation to invest on these vehicles or asset classes.

Build the habit of investing systematically. You can save a certain amount every month that you allocate exclusively to investing, and then look to add to it whether monthly, quarterly, or every six months. The key is to be consistent.

Once your investment goals are defined and prioritized, determine your risk tolerance and time horizon in order to develop an asset allocation you feel comfortable with. Avoid extreme positions based on any one outlook. Instead, work to create a diversified portfolio that includes stocks, bonds, and other asset classes such as real estate and commodities in order to decrease portfolio volatility and improve risk-return characteristics.

Knowing how to invest your assets can be intimidating, especially if you lack experience. If you do not have sufficient investable assets to create a diversified portfolio, balanced mutual funds and ETFs can provide diversification benefits right away. These funds offer exposure to stocks, bonds, and other asset classes with even the smallest initial investment. Altering your asset allocation as your goals evolve and time horizon changes is also important. Target date funds gradually shift your asset allocation over time to match your specified time horizon and can be a great option for investors who would rather not make those investment decisions for themselves.

Prioritize your money's time *in* the market versus "tim*ing* the market." Many people chase fad investments (ex. "meme" stocks) which is not a sustainable way to build wealth. Invest your portfolio for the long term, as allowing more years for your investments to grow is a key factor to achieving financial prosperity.

BASICs: CREDIT

Building good **credit** is key to obtaining a lease, the best rates for home and auto loans, passing a background check for a new job – and more. Endeavor to build good credit by becoming an authorized user on a family member's card, getting your own secured or regular credit card, or obtaining a credit-builder loan. Make regular, on-time payments. Setting up automatic payments is a great way to stay on track. Use a low amount of available credit, and sustain these habits over time. Some key components of your credit are important for the long term, such as how many on-time payments you have made; no late or missed payments; and being capable of paying off the debt that you do incur.

Balancing your debt is tied to maintaining good credit. Before you sign up for a new credit card, review the terms that apply especially after an introductory period where the interest rate is lower; from time to time, do the research to understand and compare your current interest rate. When applying for a loan, review the terms and interest rate to reduce the amount of debt and/or the time frame of paying off the loan. The commitment to doing periodic research may benefit your financial future; awareness of your credit and debt is just as important as your commitment to long term savings.

[Image Source: iStock]

Get Started

These **BASIC** steps and components can help you achieve financial prosperity. Everyone's financial journey is different, and our 1919 Women & Wealth Platform is here as a resource for you. We strive to best serve our clients with their unique and unexpected challenges through changing times. Our team understands the distinct financial planning challenges and opportunities women face at various stages of their lives, even when these challenges are unexpected. Reach out to us when you are ready for an advocate to help you navigate your path to financial prosperity.

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[1] Brown, Anna. "A Profile of Single Americans," Pew Research Center. August 2020.
[2] "2021 Women and Investing Study," Fidelity Investments, 2021.
[3] "2021 Women and Investing Study," Fidelity Investments, 2021.
[4] "Single Women and Money Study," Fidelity Investments, 2017.
[5] Golden, Jerry. "A New Approach to Retirement Income Planning for Women." As seen in Kiplinger December 2020. 23 November, 2020.
[6] "Single Women and Money Study," Fidelity Investments, 2017.