INVESTOR NEWSLETTER

WHAT ARE YOU SAVING FOR?

HELPING YOU MAKE INFORMED INVESTING DECISIONS

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What are you saving for? The answer may be complicated.

You may be saving up for a laptop or for a trip next year. Those are short-term financial goals. You may be saving up for a car or a house. Those are medium-term goals. You may be saving for a child's education, or for your retirement – that moment when you can stop working and enjoy life on your terms. Those are long-term goals.

You may have several of these goals, or all of them or different ones. We all have numerous demands on our money and are frequently juggling many competing goals at once. And most of us have a limited ability to save to meet those goals. After all, we also need our money for the obligations we have in the present.

How can we manage our finances so that we have the highest probability of reaching our goals? Working with a financial advisor can help. Setting a budget – and sticking to it – is key. It's easy to say: "talk to your advisor" or "determine your budget", but if you don't know how to get started, then you may not have the right kind of conversation with your advisor and you may not know how to create a workable budget that you can stick to.

Here are four concrete steps you can take to stay on track with your goals:

1 Clarity and Focus:

First, identify your goals. Write them down.

Knowing what your goals are can help you stay focused on what you want to achieve. Whether it's building an emergency fund, saving for retirement, or planning a dream vacation, knowing your objective keeps you motivated.

Once you have determined what your goals are, you should also decide which order of priority each has. Those priorities will be guided by your specific circumstances. For example, saving for retirement may be more important to someone who already has an automobile and is paying off a mortgage. But for someone just starting their career, saving up for a car may be the priority as it could be the key to getting a better job in the future. Parents of teenagers may be most focused on ensuring their children have the best chance at a good education.

With your goals now set, it's important to develop a path to meet them.

For example, you could open a special high-interest savings account for your shorter-term goals and set up a recurring transfer from your bank account.

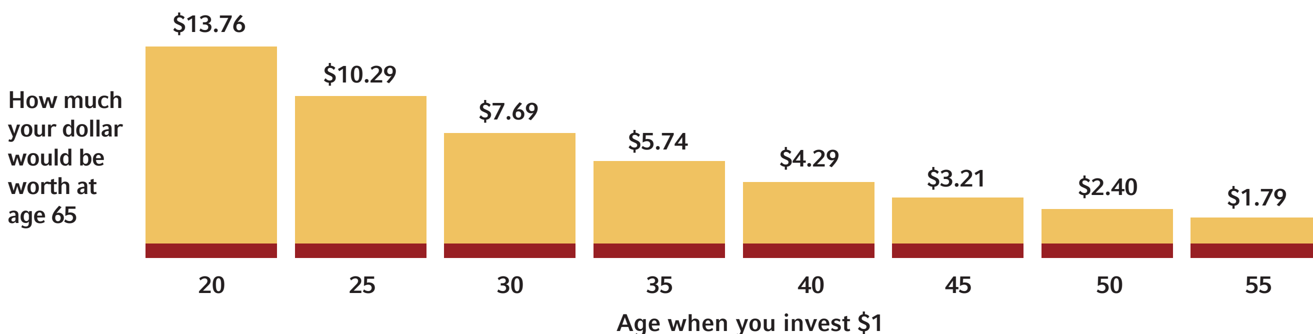
Then you could decide that when the savings account reaches a certain level, you could withdraw a portion to purchase a Certificate of Deposit that has a maturity date in line with your medium-term goals. Or you could have several different savings accounts, one for each specific savings target.

For your longer-term goals there are several channels you can use. There may be government-funded education plans you can access to help you save for your child's college education. Your employer may offer a defined contribution pension plan, a 401(k) or other type of savings vehicle. In many cases, the company will match your contributions – that's free money on the table for you to use.

Most people will need to invest in the financial markets in order to meet their longest-term goal – retirement. Your advisor can also help you create an investment portfolio that considers your needs, goals and circumstances, that aligns to your risk profile and is structured to minimize your tax liabilities.

While it may seem difficult to find the money to save for what may be very far in the future if you are a younger investor, the sooner you begin, the better. Even a small amount contributed monthly will grow substantially over time. The chart below shows you the **power of compounding** when it comes to your retirement.

Stay early / Make your retirement savings work hard for you



For illustrative purposes only. Assumes a 6% return after inflation.

2 Measurable Progress:

Keep track of how well you are doing! When it comes to your investments, your advisor will send you quarterly and/or annual statements. They will likely schedule regular discussions with you to see if any of your needs, goals or circumstances have changed. They can let you know if your portfolio is on track or if you should make any changes.

A good way to know if you are on track is to determine your funded ratio. This is a concept that was originally used to describe the health of defined benefit pension plans, but you can use it to see how well your retirement portfolio is doing compared to your retirement plans. The funded ratio is basically the sum of your total assets divided by your future spending needs in retirement.

Will your assets and expenses balance out?

Once you're within a couple of years or in retirement, your advisor can more precisely calculate your funded ratio – a key indicator of the health of your retirement portfolio.

* In today's dollars.

The funded ratio is expressed as a percentage. If yours is above 100% then you are on track (barring extreme or unexpected events), but if you are under 100%, then you may want to talk to your advisor about your retirement plans and what your options may be to improve your funded ratio.

With your other, smaller, savings goals, quantifying each of them allows you to track your progress over time. One way of doing that is to break down the total amount into smaller milestones and celebrate each achievement.

3 Accountability:

Set a deadline to reach your goals. This creates accountability. It encourages consistent saving each month, ensuring you stay on track.

Of course, each goal will have a different deadline. This is where your priority list comes into play. It may feel easier to reach a short-term goal first, but to ensure you don't neglect your longer-term goals, set deadlines for key milestones. And as noted above, celebrate each accomplishment.

4 Realistic Budgeting:

Calculating how much to save monthly ensures your goal aligns with your financial situation. It prevents unrealistic expectations and helps you adjust your budget accordingly. Most experts suggest you look at a full year's worth of expenses to find what your average monthly spending looks like. Depending on where you live, you may have higher heating costs in some months, or higher air conditioning costs. You may have regular bills that are easy to track, but there may also be quarterly expenses, intermittent expenses, or yearly ones that may throw that monthly budget out of whack if not planned for.

It's also important to know what will happen if there is an emergency. For example, your car breaks down, someone in your family has a medical issue, or one of your appliances stops functioning. What then?

Or worse – you lose your job, your hours are cut, or something else happens that affects your income stream. If you don't have a savings "cushion", you may have to dip into one of the buckets you have created for your specified goals. And doing so could throw everything off: you might even abandon one of your goals for a while. Your cushion could be between three and six months of expenses depending on your circumstances.

So when you set a budget, don't just look at your current expenses. Make sure to set aside money for unexpected expenses as well as your future goals.

Russell Investments

Remember, having specific savings goals not only helps you save more effectively but also provides a roadmap for your financial journey. Your financial advisor can help get you to where you want to be.

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