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Is It Time to Rethink College?

College costs can seem staggering. For the 2016–17 school year, the average annual total cost was $49,320 for a four-year private university and $24,610 for a four-year public university (Source: *Trends in College Pricing*, 2016). It's no wonder that students and parents alike wonder whether college is really necessary.

It is estimated that college graduates will earn approximately 65% more over their working lives than high school graduates. In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough by age 36 to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years (Source: *Education Pays*, 2013).

While that doesn't sound like a bad trade-off — break even by age 36 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $10,138 annually to the cost. And if your student goes to a private university, the costs are typically double what you would pay at a public university.

Those figures also don't consider how you pay for that education. If you pay primarily with student loans, it could take a lot longer than age 36 to break even.

That doesn't mean your child shouldn't go to college, just that you may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the cost of a college education:

✔ **Look for scholarships that are not based on need.** Generous merit scholarships are often available to students with outstand-

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Shopping for Value in College Education

While a college education remains one of the largest investments you and your children will make, there are still bargains out there. Here are some tips on where to find them:

Take aim at elite, private schools with super-generous financial aid programs. It may surprise you, but some of the priciest elite schools are considered the top bargains in all of U.S. higher education. That's because they're blessed with huge endowments that can run into the billions and have generous financial aid policies.

Consider top-rated state universities. For residents, state colleges and universities remain the best bargains among four-year schools.

Reach for rock-bottom state school bargains. Search for cheapest colleges on the Internet, and you'll find lists of the least-expensive colleges.

Take the community college route. They are being used by affluent families as a deliberate way of holding down the cost of getting a bachelor's degree. Just make sure that any credits earned at a community college will transfer to the four-year university. ❍❍❍

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Is It Time?

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ing high school grades and above-average entrance exam scores. Scholarships may also be available for athletes and for those with strong music backgrounds. If your student has qualities that a college is looking for, that college may be more willing to offer scholarships to attract him/her.

✔ **Apply to several different colleges.** Don't make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges. This is especially true in these economic times when more students are applying for aid and colleges have less aid available.

✔ **Talk to the university.** If the financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing the college offers from other universities, you may be able to increase your financial aid package.

✔ **Don't overlook state public universities.** Costs of public universities, especially in your state, are typically much more affordable than private universities.

✔ **Decide whether it makes sense to go to an expensive private college.** First, you need to evaluate how much financial aid your student would be entitled to, since many private universities offer substantial aid packages. If you are still left funding much of the cost yourself, consider whether your child's intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, you may not want to send him/her to an expensive college.

✔ **Consider starting at a two-year college.** Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2016–17 school year, the average cost of tuition and fees at a public two-year college is $3,520 compared to $9,650 at a public four-year college and $33,480 at a private four-year college (Source: *Trends in College Pricing*, 2016). Before starting, however, your child should determine to which four-year college he/she will transfer and make sure all credits from the community college will transfer to the four-year college.

✔ **Send more than one child to the same university.** Many universities offer discounts on tuition if more than one child attends at the same time.

✔ **Accelerate your child's studies.** You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college, which will then transfer as college credits. Advanced placement courses may also count as college credit.

Please call if you would like to discuss this topic in more detail.

Risk Tolerance and Your Retirement Portfolio

Risk is always going to be a factor in the stock market. As we age, however, risk becomes an even more important factor that no responsible investor can afford to overlook.

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major market upswings and downswings. This refers not just to highly volatile stocks, but to stocks themselves, which tend to be riskier than most other forms of investment.

If a person is said to have a high risk tolerance, he or she likely tends not to worry so much about the potential risk of certain stocks or having a large amount of stocks. Those with low risk tolerance are on the other end of spectrum, often too cautious to deal with volatile stocks or the market in general.

The important thing to recognize here is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover. It may seem as if adjusting risk tolerance is challenging, and for some people it certainly can be.

That being said, often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your portfolio to be comprised of mostly stocks. Many successful investors find that moving away from stocks toward bonds is an effective later-in-life strategy.

Once you have a general percentage figured out, take a moment to determine how many stocks will actually make up that portion of your portfolio. This can vary significantly in terms of personal preference, but often 10 stocks are mentioned as a reasonable number to hold in your portfolio. Keeping your stock investments to 10 or less allows you to pay closer attention to what's actually happening with your investments.

The best way to get a better sense of what is a realistic risk tolerance for you to have at this point in life is to work closely with your financial advisor. Please call if you'd like to discuss this in more detail. ❍❍❍

10 Common Investor Mistakes

The reason nonprofessional investors often err was well-known even before the new science of investment psychology was born: we're only human, and something happens deep within us when we're handling our own money that doesn't happen when we're handling someone else's money. When it's our own, it's the vehicle for realizing our dreams and warding off our waking nightmares, and every decision we could make looms larger than life.

Here are 10 of the most common mistakes individual investors make while trying to do the best they can:

✔ **Falling in love with a stock.** There are a host of reasons for this, among them being we or a relative worked for the company, we inherited it, we like being associated with the company's prestige, or simply that it's been a steady performer for as long as we've owned it. The problem is, however, that the stock won't fall in love with us and won't think twice about losing half or more of its value. This is a case where love makes us blind to deep flaws in a company that may never be repaired.

✔ **Catching a falling knife.** When a high-flying stock goes bad, it drops fast and hard. But when it does, there are thousands of investors who think it's a steal and buy shares when they see it bounce. What they often learn is that they caught the stock in mid-fall, and like a knife passing right through the palms of their hands, the stock price has a lot farther to fall before finally coming to rest.

✔ **Investing on tips.** The problem with tips is that the average investor hears them after just about everyone else already has. As a result, we buy the stock at its highest price, and there's no one else who wants to buy it to make it go any higher.

✔ **Chasing performance**. For many people, stocks only get attractive after they've gone so high for so long that they've reached the end of their run. This is also called rear-view mirror investing, meaning you're more concerned with where the stock has been than where it's going.

✔ **Failing to diversify**. The best way to get rich in the stock market is to put all your money into one stock. But it only works if the stock goes to the moon. If it goes in the opposite direction, this is also the best way to become poor. It's smartest to spread out your risk as well as your chances of success, not only among more than one stock, but in more than one industry, sector, country, and asset class. The more diversified you are, the less risk you'll bear.

✔ **Thinking only short term.** This is actually the opposite of investing. It's speculating. There are few part-timers who succeed at this game. The danger is that just like changing lanes too many times in a traffic jam, you're just as likely to fall behind where you might have been had you just stayed where you were.

✔ **Playing penny stocks.** Inflation hit true penny stocks years ago. The strict definition is stocks priced less than $5 a share with daily trading volumes of less than 100,000 shares. Usually, the companies have net tangible assets of only a few million dollars and a short operating history. The odds of hitting it big with these are about the same as winning the lottery, if not worse. Owned mostly by individual investors and the founders of the company, penny stocks are notoriously volatile and risky.

✔ **Waiting to break even.** It's been said that more money has been lost by investors waiting to recoup their initial investments than for any other reason. Successful investors know when it's time to cut their losses and look for a better opportunity.

✔ **Being too conservative.** This syndrome is the opposite of most of the previous mistakes. In this case, investors are so afraid of losing money that they fail to put enough money in growth vehicles to stay ahead of inflation. As a result, the buying power of their portfolio declines year by year, courting the risk they'll have a lower standard of living the older they get.

✔ **Investing without a plan.** This is another way of saying all of the above. Sound financial plans match your income, resources, and risk tolerance with an investment strategy providing the discipline that can take emotions out of the equation. Please call if you'd like help developing an investment strategy. ❍❍❍

Keep Saving after Retirement

Because you're retired doesn't mean you should stop saving. Carefully managing your money and looking for ways to save will help ensure you remain financially fit during retirement. Consider these tips:

✔ **Construct a financial plan.** Most retirees fear they'll run out of money during retirement. To ease those fears, create a financial plan detailing how much money will be obtained from what sources and how that income will be spent. Make sure your annual withdrawal amount won't cause you to deplete your savings. Review your plan annually to ensure you stay on course.

✔ **Consider part-time employment.** Especially if you retire at a relatively young age, you might want to work on at least a part-time basis. Even earning a modest amount can help significantly with retirement expenses. However, if you receive Social Security benefits and are between the ages of 62 and full retirement age, you will lose $1 of benefits for every $2 of earnings above $16,920 in 2017. You might want to keep your income below that threshold or delay Social Security benefits until later in retirement.

✔ **Contribute to your 401(k) plan or individual retirement account (IRA).** If you work after retirement, put some of that money into a 401(k) plan or IRA. As long as you have earned income and meet the eligibility requirements, you can contribute to these plans.

✔ **Try before you buy.** Want to relocate to another city or purchase a recreational vehicle to travel around the country? Before you buy a home in an unfamiliar city or purchase an expensive recreational vehicle, try renting first.

✔ **Keep debt to a minimum.** Most consumer loans and credit cards charge high interest rates that aren't tax deductible. During retirement, that can put a serious strain on your finances. If you can't pay cash, avoid the purchase.

✔ **Look for deals.** Take the time to shop wisely, not just at stores, but for all purchases. When was the last time you compared prices for auto or home insurance? Can you find a credit card with lower fees and interest rates? When did you last refinance your mortgage? ❍❍❍

Calculate an Investment's Basis

When you purchase an investment, your basis equals the price you paid plus any fees or commissions. While the calculation is fairly straightforward, other factors can affect your basis calculations:

✔ Reinvested dividends are added to your basis.

✔ The basis of any investment received as a gift is the donor's original basis plus any gift tax paid by the donor. However, if you then sell the investment at a loss, your basis is equal to the lesser of the donor's basis or the investment's fair market value on the gift date.

✔ For inherited investments, the basis is the market value on the date you inherited it.

✔ Your basis in stock that has been split is the same as your basis before the stock split.

✔ When you exercise a stock option, your basis equals the price you paid for the shares plus any fees or commissions, which may be lower than market value. Shares must be retained for at least one year after purchase and for two years after receipt of the option, or any gains will be taxed as ordinary income. ❍❍❍

Financial Thoughts

The average sale price of new cars and SUVs in 2016 was $33,845, a 3.5% increase from 2015 (Source: *Money*, September 2016).

In a recent survey of parents whose children are currently attending four-year colleges, 48% indicated that college cost more than they expected, and 42% said college was too expensive (Source: *Money*, August 2016).

In another survey, 57% of millennials (those born between 1982 and 2004) regret how much money they borrowed for higher education (Source: Citizens Bank, 2016).

Almost 43% of federal student loan borrowers are behind on their payments or not making payments at all (Source: Citizens Bank, 2016).

Approximately 80% of millenials do not invest in the stock market. The reasons cited include: they don't have enough money (40%), they have too much student debt (13%), and they don't know how (34%) (Source: *Journal of Financial Planning*, September 2016).

One in six employers offers retiree health insurance coverage to retired workers (Source: Benefits Pro, 2016). ❍❍❍