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Managing Your Money in a Gig Economy
How Does the Federal Reserve Affect the Economy?
What's the real return on your investments?
What are some tips for creating a home inventory?



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A Wealth of Advice

Time for a Mid-Year Investment Check



Many investors may be inclined to review their portfolios only when markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, periodically

reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a checkup. Here are three questions to consider.

1. How have my investments performed so far this year?

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For example, for stocks, you might compare performance against the S&P 500 (for domestic large caps), the Russell 2000 (for small caps), or the Global Dow (for global stocks). For mutual funds, you might use the Lipper indexes to see how your funds performed against a relevant benchmark. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security; you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any result was concentrated in a single asset class or investment, was that performance consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action?

In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

2. Do I need to make adjustments?

Review your financial goals (e.g., retirement, college, home purchase) and the market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets

will do in the future, but by looking at current conditions and projections for interest rates, inflation, and economic growth, you might identify factors that could influence the markets in the months ahead. With this broader perspective, you can update your investment strategy as needed.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your asset allocation preference is 60% stocks and 40% bonds, but now due to investment returns your portfolio is 75% stocks and 25% bonds.

To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments in the overrepresented classes and transferring the proceeds to the underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others until the target allocation is reached. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

3. Am I maximizing my tax savings?

Taxes can take a bite out of your overall investment return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you hold in those accounts and the timing of when you sell investments. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

In sum, by taking the time to periodically review your portfolio in good economic times as well as bad, you can feel confident knowing that your investing strategy is attuned to current market conditions and your overall needs.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

Managing Your Money in a Gig Economy



As a contingent worker, you may be eligible for a number of tax deductions (e.g., start-up expenses, mileage), so be sure to keep good records. If you have multiple gig jobs, consider using a log to keep track of your income and work expenses.

According to the Bureau of Labor Statistics, 16.5 million people rely on contingent or alternative work arrangements for their income.¹ Often referred to as the "gig economy," these nontraditional or contingent work arrangements include independent contractors, on-call and temp agency workers, and those who sign up for on-demand labor through smartphone apps.

If you are a contingent worker, you need to pay close attention to your finances in order to make up for any gaps in earnings that may occur between jobs. In addition, you'll have to plan ahead for health-care costs, taxes, and saving for retirement, since you will have to shoulder these expenses on your own. The following are some tips for managing your money in a gig economy.

Prepare for slower periods between jobs

While establishing a cash reserve is an integral part of any financial strategy, it is especially important for contingent workers. You'll want to set aside enough money to cover unexpected expenses and large bills that may come due during slower months between jobs. A good strategy is to make it a habit to deposit a portion of your income in your cash reserve.

Make sure you maintain good credit

Even a robust cash reserve might not be able to weather a significant downturn in contingency work. That's why it's important for contingent workers to have access to credit to help them get through leaner times. Make sure that you maintain a good history by avoiding late payments on existing loans and paying off your credit card balances whenever possible.

Come up with a budget...and stick to it

Because your income flow fluctuates, you'll need to come up with a budget a bit differently than someone with a regular income. Your first step should be to determine your monthly expenses. If it helps, you can break them down into two types of expenses: fixed and discretionary. Fixed expenses are expenses that will not change from month to month, such as housing, transportation, and student loan payments. Discretionary expenses are expenses that are more of a "want" than a "need," such as dining out or going on a vacation. Once you come up with a number, you should determine how much income you need to keep up with all of your expenses.

For a contingent worker, it's especially important to stick to your budget and keep your discretionary expenses under control. If you are

having trouble keeping on track with your budget, consider ways to cut back on spending or find additional sources of income to make up for any shortfalls.

Consider your health insurance options

Unfortunately, as a contingent worker you don't have access to an employer-sponsored health plan. However, you do have health insurance options. If you are a recent college graduate and still on your parents' health insurance plan, you usually can stay on until you turn 26. If you are no longer on your parents' plan, you may be eligible for a government-sponsored health plan, or you can purchase your own plan through the federal or state-based Health Insurance Marketplace. For more information, visit [healthcare.gov](https://www.healthcare.gov).

Plan ahead for taxes

In a traditional work arrangement, employers typically withhold taxes from employees' paychecks. As a self-employed worker, you'll have to plan ahead for federal and possibly state taxes so you don't end up with a large bill during tax time. The IRS requires self-employed individuals to make quarterly estimated income tax payments, so make sure you set enough money aside each time you get paid to go toward your tax payments. Because contingency income fluctuates from month to month, the IRS allows you to make unequal quarterly payments. In addition, you'll be responsible for paying a self-employment tax, so you need to account for that as well. For more information, visit the IRS website at [irs.gov](https://www.irs.gov).

Don't forget about retirement

While being self-employed has benefits, it also comes with tough challenges. In particular, a lack of structured benefits, such as an employer-sponsored retirement plan, can lead contingency workers to end up sacrificing their retirement savings. And even though anyone with earned income can set up an IRA, the contribution limits are relatively low — \$6,000 in 2019 (\$7,000 if age 50 or older).

Fortunately, there are some options that may allow you to make larger retirement contributions. Consider contributing to a solo or individual 401(k) plan (up to \$56,000 in 2019, not counting catch-up contributions for those age 50 and over) or a SEP IRA (25% of your net earnings, up to \$56,000 in 2019).

¹ U.S. Bureau of Labor Statistics, Contingent and Alternative Arrangements Summary, June 2018



How Does the Federal Reserve Affect the Economy?



The Fed's mission

The Federal Reserve is the central bank of the United States. Its mission is to provide the nation with a safer, more flexible, and more stable monetary and financial system. For more information on the Federal Reserve, visit federalreserve.gov.

FOMC meeting schedule

The Federal Open Market Committee meets eight times a year. Scheduled FOMC meetings in 2019: January 29-30, March 19-20, April 30-May 1, June 18-19, July 30-31, September 17-18, October 29-30, and December 10-11.

If you follow financial news, you've probably heard many references to "the Fed" along the lines of "the Fed held interest rates," or "market watchers are wondering what the Fed will do next." So what exactly is the Fed and what does it do?

What is the Federal Reserve?

The Federal Reserve — or "the Fed" as it's commonly called — is the central bank of the United States. The Fed was created in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Today, the Federal Reserve's responsibilities fall into four general areas:

- Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices
- Supervising and regulating banks and other important financial institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- Providing certain financial services to the U.S. government, U.S. financial institutions, and foreign official institutions, and playing a major role in operating and overseeing the nation's payments systems

How is the Fed organized?

The Federal Reserve is composed of three key entities — the Board of Governors (Federal Reserve Board), 12 Federal Reserve Banks, and the Federal Open Market Committee.

The Board of Governors consists of seven people who are nominated by the president and approved by the Senate. Each person is appointed for a 14-year term (terms are staggered, with one beginning every two years). The Board of Governors conducts official business in Washington, D.C., and is headed by the chair (currently, Jerome Powell), who is perhaps the most visible face of U.S. economic and monetary policy.

Next are 12 regional Federal Reserve Banks that are responsible for typical day-to-day bank operations. The banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Each regional bank has its own president and oversees thousands of smaller member banks in its region.

The Federal Open Market Committee (FOMC) is responsible for setting U.S. monetary policy. The FOMC is made up of the Board of Governors and the 12 regional bank presidents. The FOMC typically meets eight times per year. When people wait with bated breath to see what the Fed will do next, they're usually referring to the FOMC.

How does the Fed impact the economy?

One of the most important responsibilities of the Fed is setting the federal funds target rate, which is the interest rate banks charge each other for overnight loans. The federal funds target rate serves as a benchmark for many short-term interest rates, such as rates used for savings accounts, money market accounts, and short-term bonds. The target rate also serves as a basis for the prime rate. Through the FOMC, the Fed uses the federal funds target rate as a means to influence economic growth.

To stimulate the economy, the Fed lowers the target rate. If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages, and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

On the other hand, if consumer prices are rising too quickly (inflation), the Fed raises the target rate, making money more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

People often look to the Fed for clues on which way interest rates are headed and for the Fed's economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide insight about where the economy might be headed. All of this information can be useful for consumers when making borrowing and investing decisions.



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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)



What are some tips for creating a home inventory?

Imagine having to remember and describe every item in your home, especially after you've been the victim of a fire, theft, or natural disaster.

Rather than relying on your memory, you may want to prepare a home inventory — a detailed record of all your personal property. This record can help substantiate an insurance claim, support a police report when items are stolen, or prove a loss to the IRS. Here are some tips to get started.

Tour your property. A simple way to complete your inventory is to make a visual record of your belongings. Take a video of the contents of each room in your home and spaces where you have items stored, such as a basement, cellar, garage, or shed. Be sure to open cabinets, closets, and drawers, and pay special attention to valuable and hard-to-replace items. You can also use the tried-and-true, low-tech method of writing everything down in a notebook, or use a combined approach. Mobile inventory apps and software programs are available to guide you through the process.

Be thorough. Your home inventory should provide as many details as possible. For

example, include purchase dates, estimated values, and serial and model numbers. If possible, locate receipts to support the cost of big-ticket items and attach copies of appraisals for valuables such as antiques, collectibles, and jewelry.

Keep it safe. In addition to keeping a copy of your inventory at your home where you can easily access it, store a copy elsewhere to protect it in the event that your home is damaged by a flood, fire, or other disaster. This might mean putting it in a safe deposit box, giving it to a trusted friend or family member for safekeeping, or storing it either on an external storage device that you can take with you or on a cloud-based service that provides easy and secure access.

Update it periodically. When you obtain a valuable or important item, add it to your inventory as soon as possible. Review your home inventory at least once a year for accuracy. You can also share it annually with your insurance agent or representative to help determine whether your policy coverages and limits are still adequate.

