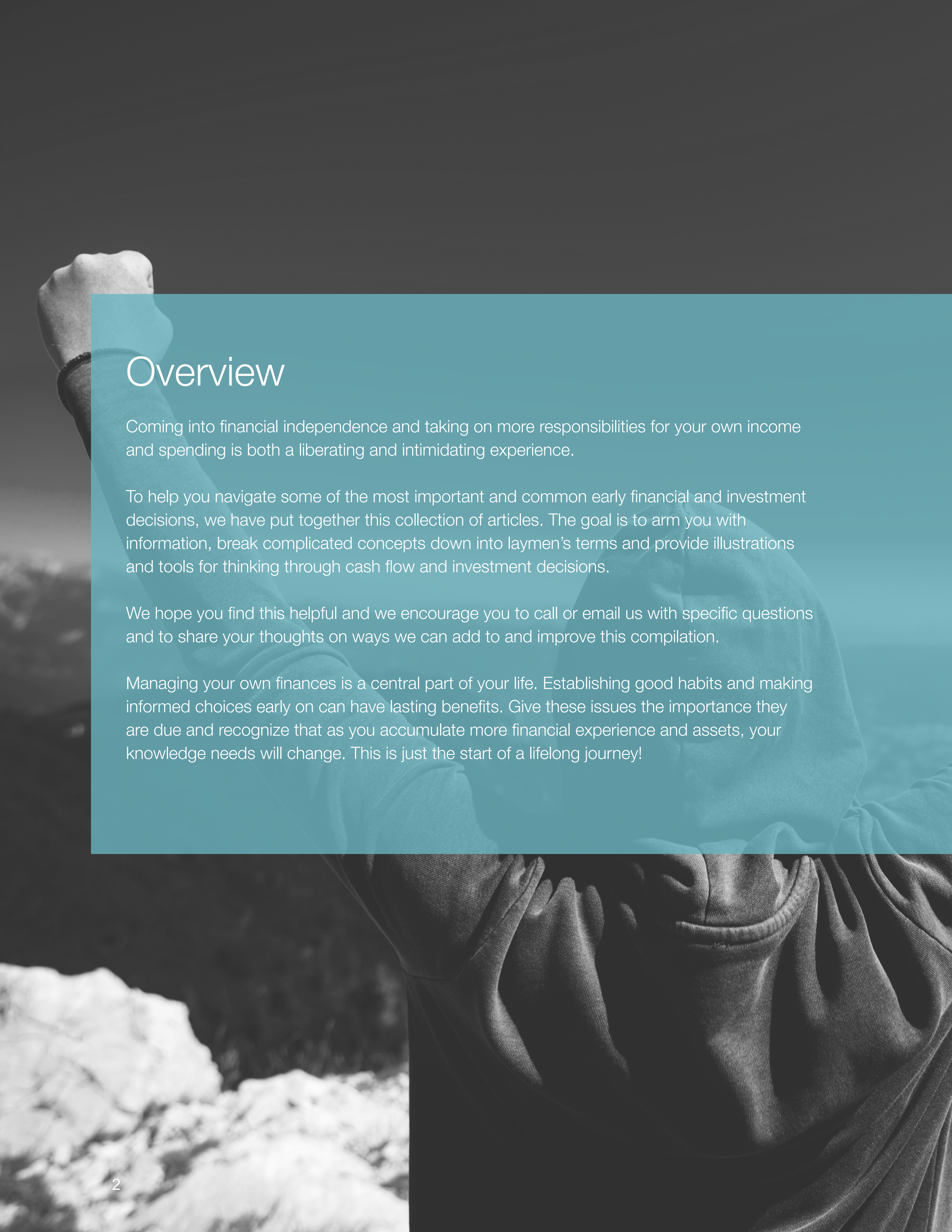
ALTAIR

Starting Your Financial Life

A Compilation of Key Concepts and Considerations



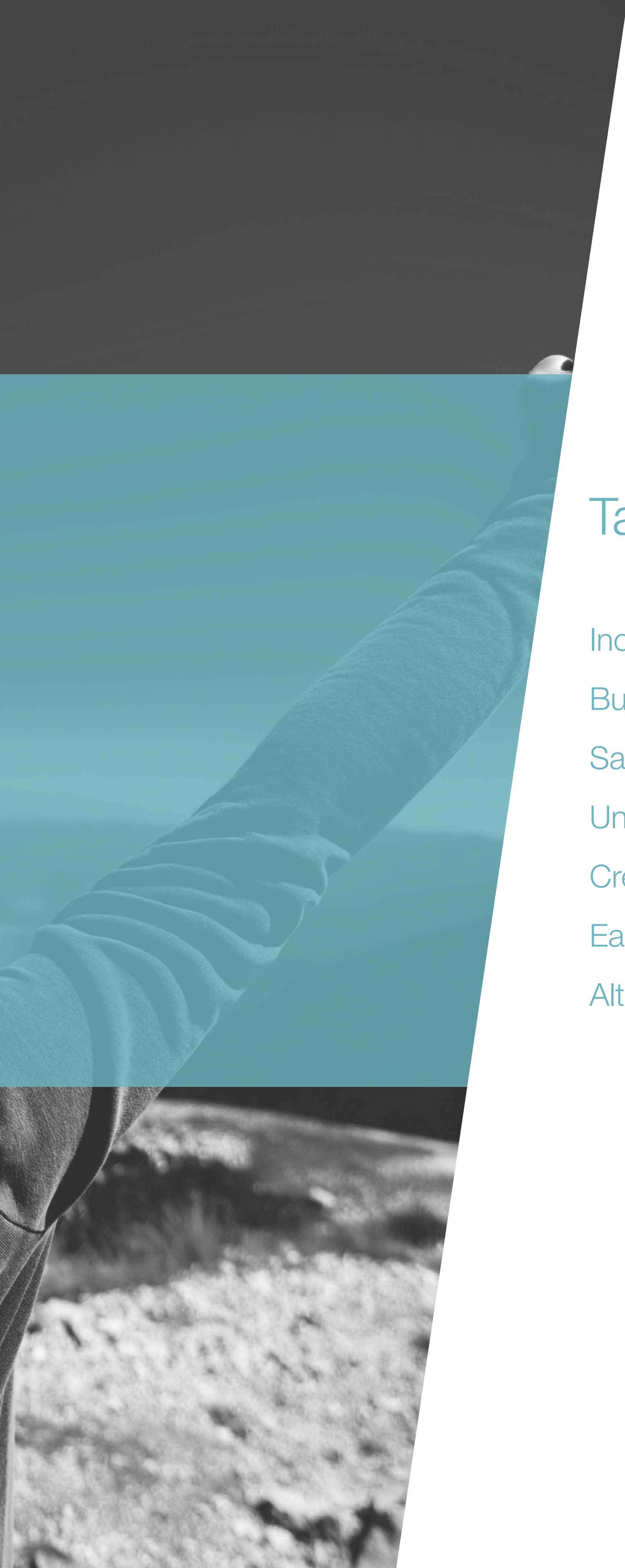
Overview

Coming into financial independence and taking on more responsibilities for your own income and spending is both a liberating and intimidating experience.

To help you navigate some of the most important and common early financial and investment decisions, we have put together this collection of articles. The goal is to arm you with information, break complicated concepts down into laymen's terms and provide illustrations and tools for thinking through cash flow and investment decisions.

We hope you find this helpful and we encourage you to call or email us with specific questions and to share your thoughts on ways we can add to and improve this compilation.

Managing your own finances is a central part of your life. Establishing good habits and making informed choices early on can have lasting benefits. Give these issues the importance they are due and recognize that as you accumulate more financial experience and assets, your knowledge needs will change. This is just the start of a lifelong journey!



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Incorporating Family Money Into Your Life

As originally published in Family Business Magazine

Whether you are the recipient of distributions from a family trust or a family business, or benefit from annual exclusion or other financial gifts from grandparents or parents, the presence of family wealth can introduce both opportunity and uncertainty. To thoughtfully incorporate gifts of family money into your life, you'll need to know your role as a receiver of these assets and have clarity on any expectations and responsibilities that come with them. Only then can you make informed choices about how to utilize them.

Learn the "Why" behind the Money

It can feel awkward (or even seem ungrateful) to ask questions as the recipient, but when communicated in the right way your questions demonstrate that you take the receipt of this gift seriously – that you not only acknowledge it but want to understand and honor the intentions behind it.

Whom do you ask? The best place to start is with the source of the assets. For distributions from a family business, decisions are likely made by a board of directors with input from a family council or key family shareholders. If you are the beneficiary of a trust, you will want to set up time to meet with the trustee. For more direct, less structured monetary gifts, a conversation with the giver, likely your parents or grandparents, is best.

What you should ask is up to you. What information do you need to know, what do you already know? You should recognize that the board member, trustee or your grandparent/parent may not be able or ready to share answers on any and all questions and you will need to be respectful of that decision. The important thing is for you to learn about any expectations that come with receiving these assets so that you are in a position to plan for how they will impact your own financial life.

- Will this distribution be the same every year?
- Are there specific intentions about the uses for these funds?
- Does the grantor have hopes for how this money will affect my life that I should know about?
- Am I free to deploy these assets as I see fit, and will my decisions about how to use this money be considered in future distributions?
- If I am unaware of my choice set or feel overwhelmed about how to incorporate this money into my life, to whom can I go to questions?
- Is there an adviser or mentor who can help me evaluate different options for putting this money to use?

To ensure that these conversations go well, give everyone involved plenty of time to review your questions in advance and be patient with the communications process. Money is an uncomfortable subject for many people, and it may take a while for family members or even outside trustees or board representatives to be ready to have a meaningful conversation. Also recognize that you may not get all the answers you are seeking all at once. What you are learning now may be the start of a much larger learning process where more information will be shared over time. Focus on the questions that truly matter to your life at present (e.g. "Can I move forward on the purchase of a condo with the expectation that this gift/distribution will be an annual occurrence for the next five years?") as opposed to demanding all financials on the family business and family trusts on day one.

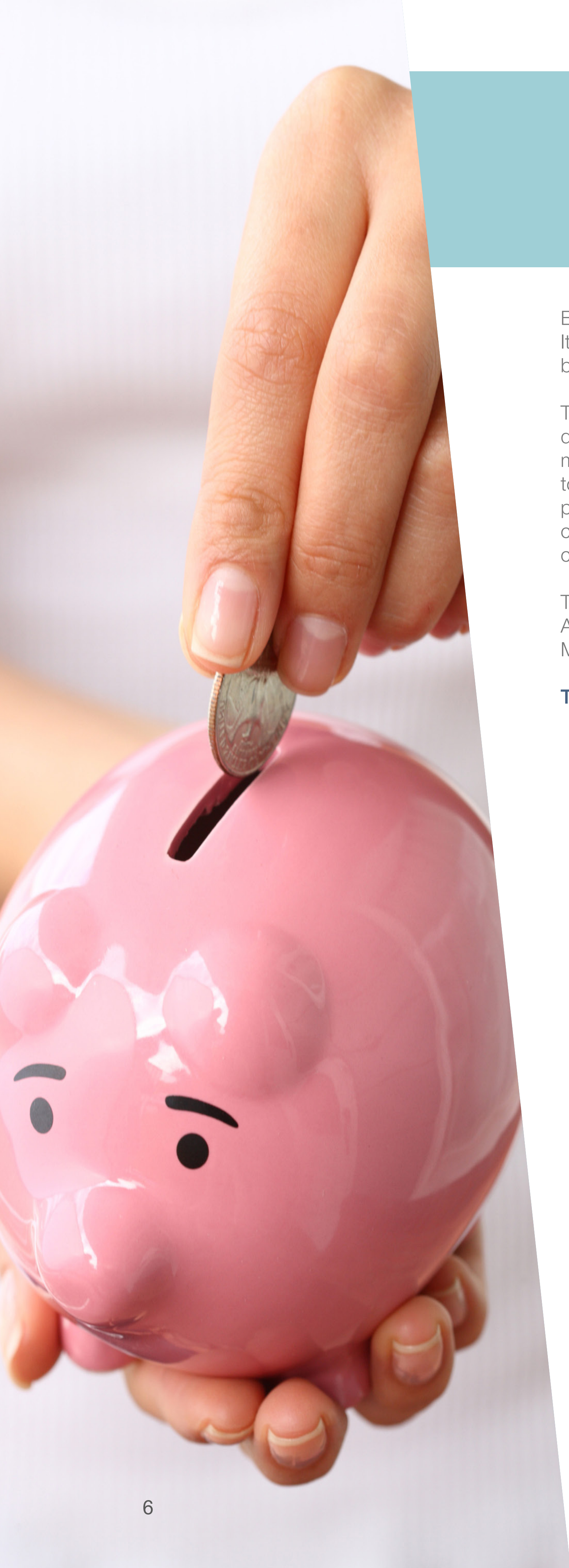
Be sure to practice discretion and not share inappropriately what is discussed. These can be sensitive matters, and it damages trust and hampers future communication if the person answering your questions worries that the information will not remain confidential.

Consider the Ways Family Money Can Be Used in Your Life

Once you know more about the intentions of these assets, you can start to evaluate the different ways to put them to use. Will your annual distribution pay your rent or mortgage so that you can go back to school full-time? Would this enable you to follow a career passion that might be lower paying but highly fulfilling? Are you hoping to buy a home or property or start a business on a set timeframe? Do you want to set up new investments that diversify your holdings outside a more concentrated position in a business or portfolio from a trust?

Like the questions above, the options you consider are specific to your situation and circumstance. It is highly individualistic. The important thing is to have some information about the intent and regularity of these gifts or distributions so that you can then think strategically about both the short- and long-term possibilities that these additional funds provide. For example, if you know you can expect a set distribution from a trust going forward, then you can plan out the timeline for a down payment on a property or the ability to fully cover educational tuition, or move to a new city with a grace period for finding a new job. These are the life-changing aspects that family money can enable.

Family wealth is truly a gift and one that you want to put to use wisely. By taking the time to learn more about the assets that come to you, you will not only become more informed about the people and decisions behind these gifts, you will feel more confident in your choices for utilizing them.



Budgeting 101
Finding What Works for You

Budgeting is a valuable exercise no matter your weatlh or income level. It enables you to be confident and stay on top of your cash flow and builds greater self-awarness of your own spending and financial habits.

There are many different budgeting methodologies. Some are more detailed and complicated than others but that does not necessarily make them better. If the process is too laborious, it may be hard to stick with. The best method for an individual often depends on personal preference and suitability. Below are descriptions of three common approaches to budgeting, which can be applied alone or in combination.

There are also an abundance of apps to help you with budgeting. Again, some are more complex than others. Ones to explore include Mint.com, Wally and YNAB (You Need a Budget).

Types of Budgeting Methods:

- **Categorization/Envelope Method** - Expenses are broken down into a specific category and assigned a specific category budget (e.g. Utilities $50, Gas $75). Originally, people placed an amount of money for each category into an envelope. This method can be difficult because category costs can change each month.

- **Zero Sum/Declining Balance Budgeting** - This is one of the simplest methodologies. Each month you take your after-tax pay and subtract your total expenses until you reach zero. If you have any money at the end of the month it will go into savings or you could set aside savings and then start to subtract expenses (the preferred method). You might have a hard time reducing expenses with this budget methodology since you are not keeping track of the type of expenses.

- **Fixed/Discretionary Expense Budget** - In this method you would first subtract all fixed or essential expenses for the month (housing, transportation, utilities, etc.) and then only keep track of non-essential expenses since those can be reduced in future months. This method could be more effective if you were to categorize your non-essential expenses (entertainment, dining out, etc.).

Budget Considerations

Beyond the methodologies for budgeting, you also want to consider some of the following issues:

- **Timing** - Although most budgets are done monthly, you can do your budget weekly, monthly, quarterly or annually depending on your situation or personal preference.

- **Income Stream** - If you make the same amount of money each month, budgeting is easier. However, if you have an uneven income stream (e.g. bonuses, commission, freelance work, percentage dividends), budgeting can be more difficult because you have different amounts of income coming in each month while expenses remain the same.

- **Amount of Irregular Expenses** - Not all months have equal amounts of expenses. For example, some months might include vacations, gifts for holidays, and other one-time expenses which can distort your financial picture. It's still good to include these however because these types of fluctuations will always exist and while some are less predictable than others, you want your budget over time to reflect a certain amount of unexpected expenses.

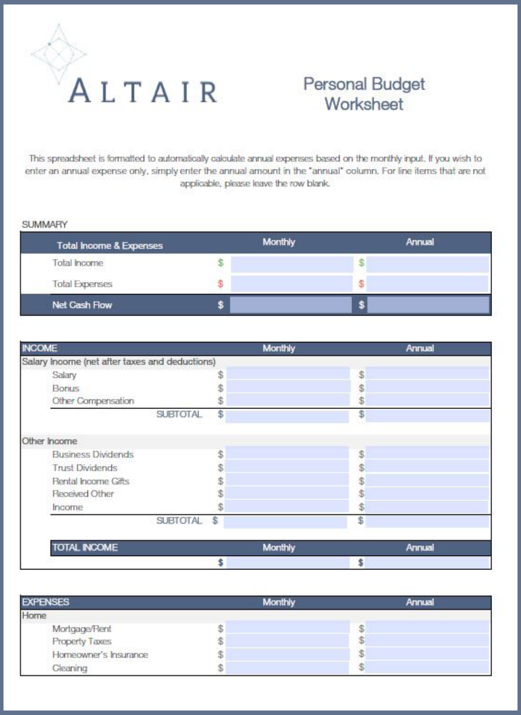
Getting Started

Using an Excel worksheet is the best option when it comes to budgeting and keeping track of your spending. Altair's Financial Planning team put together a robust budget worksheet. If you would like access to the Excel template, which includes built in formulas for totaling income, expenses and summarizing, please contact Anna Nichols at 312-429-3011 or anichols@altairadvisers.com.

Remember the key is to get in the habit of budgeting and enhance your own awareness of your own income and spending. Perfection is not required!

Need a roadmap on how to get started with budgeting?

Altair has a wealth of resources available, including our Personal Budget Worksheet specifically geared for young adults.



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Personal Budget Worksheet

This spreadsheet is formatted to automatically calculate annual expenses based on the monthly input. If you wish to enter an annual expense only, simply enter the annual amount in the "annual" column. For line items that are not applicable, please leave the row blank.

SUMMARY

Total Income & Expenses	Monthly	Annual
Total Income	$	$
Total Expenses	$	$
Net Cash Flow	$	$

INCOME	Monthly	Annual
Salary Income (net after taxes and deductions)		
Salary	$	$
Bonus	$	$
Other Compensation	$	$
SUBTOTAL	$	$
Other Income		
Business Dividends	$	$
Trust Dividends	$	$
Rental Income Gifts	$	$
Received Other	$	$
Income	$	$
SUBTOTAL	$	$
TOTAL INCOME	Monthly	Annual
	$	$

EXPENSES	Monthly	Annual
Home		
Mortgage/Rent	$	$
Property Taxes	$	$
Homeowner's Insurance	$	$
Cleaning	$	$

Salary Versus Take-Home Pay

(Or how a $2,000 paycheck is closer to $1,000)

Congratulations! You've just landed your first job at a salary of $50,000 per year. In order to properly budget and know how far your income will stretch you need to determine, **how much will you be paid per month?**

If you answered $4,167 (or $50,000 divided by 12) then you have estimated too high. There is a big difference between salary earned (Gross Pay) and what is called "take-home pay" (Net Pay). In every pay check, Federal and state income taxes, social security and Medicare along with other elected withholdings are taken out or "deducted" from your total salary. These items can be as much as 25-30% of your gross pay. For a $50,000 salary, withholdings may be around $14,000 per year, or $1,167 per month. This means your monthly net pay, is closer to $3,000.

While this may seem hard to swallow, try to look at it from a positive point of view. By having State and Federal income taxes deducted directly from your paycheck, you will not have to come up with a lump sum to pay your taxes on April 15th. Also, withholdings for Medicare and Social Security go towards services that will be available to you later in life.

In fact one of the best things you can do for yourself is to **add** to these deductions by electing to put around 10% of your gross salary into a 401K plan if your employer offers that (so in this example, approximately $400 per month or $200 per paycheck). If the company provides matching contributions to your 401K, be sure to contribute enough to receive that full match otherwise you are walking away from money that the company is offering as a part of your compensation. Many people also like to automatically divert additional money per month from their pay check directly to a Roth IRA plan. You can invest up to $6,000 per year in these plans and the investment will grow tax-free.

Why automatically deduct these additional savings and investments? Most people find it easier to set aside money for investing if they never view this money as spending cash or have to remember to take additional steps to move it over to an investment account. It's also easier to spread out investment contributions and reach your savings goals if you do it over 12 months as opposed to trying to come up with a lump sum for 401K and/or IRA contributions at the end of the year.

And remember! The option to stay on Mom or Dad's health insurance plan ends at age 26. At that point, you'll have to take an additional deduction for your portion of your company's health care plan. The costs of those plans can vary greatly from company to company.

Seeing the difference these deductions make on your income can be painful but by spreading out tax requirements across the year, the pain is less acute. Likewise, setting up direct deposits for savings provides built-in discipline for reaching your investment goals.

Pay Stub Example
(assumes a two-week or twice monthly pay schedule)*

Sample Company
123 Main Street, Anytown, USA

Employee: Joe Smith

Pay Period: 05/15/19-05/30/19

Earnings	Amount	Year to Date	Deductions	Amount	Year to Date
Gross Pay	$2,083.33	$20,833.33	Fed Income Tax	330.50	3,305.00
			State Income Tax	98.70	987.00
			Medicare	30.48	304.80
			Social Security	122.88	1,228.80
			Health Insur	0.00	0.00
			401K Contribution	200.00	2,000.00

YTD Gross	YTD Deductions	YTD Net Pay	Current Total	Current Deductions	Current Net Pay
$20,833.33	$7,825.60	$13,007.70	$2,083.33	$782.56	**$1,300.77**

*Assumes taxes and medicare/social security to be between 25-30% of your salary.

*401K contributions are voluntary and are capped at $18,500 per year. If your company matches 401K contributions, try to contribute the minimum to receive the full match.

Understanding Credit and Your Credit Score

What is credit?

As a simple definition, **credit** is a loan that one party (lender) provides another (borrower) with specific terms for how and when the loan will be repaid. Usually there is a cost for borrowing money and that cost is typically a specific percentage or interest rate on the amount of money borrowed (principal) and the length of the loan.

What Are the Qualifications for Obtaining Credit?

All companies that provide loans – be it a short-term loan such as providing someone with the use of a credit card, or a long-term loan like providing a borrower with a mortgage for a house – evaluate potential borrowers to determine if they are **"creditworthy"** or in a position to pay back the loan within the specified terms.

Companies partner with four major credit rating agencies, Experian, Equifax, Transunion and Innovis to help them determine the creditworthiness of the individuals that come to them for a loan. These three companies look at a potential borrower's credit risk, or the likelihood that he or she will default (or fail to pay) on a loan.

All adults are assigned a credit score by these four major credit rating agencies. You might also hear this number referred to as a FICO score as it was created by the Fair Isaac Corporation. Individual credit scores range from 300 to 850.

A high credit score, 650 and above, indicates that a person is likely to be a good borrower and will not have difficulty paying back a loan. A low score, below 650, signifies that a person is more likely to default or is less creditworthy. This score is based on several factors:

- 35% is based on payment history – has this individual been a good borrower in the past and met the terms of past loans?
- 30% on credit utilization – how often has he/she used credit in the past?
- 15% on length of credit history – is there enough time to judge this person's ability to use credit?
- 10% on types of credit used – what types of credit has this individual used before? Credit cards? Mortgage, car or student loans?
- 10% on recent searches for credit – has this person potentially been in need of more credit lately?

The score is intended to demonstrate whether or not an individual has the experience, financial stability, and understanding of credit to enter into a loan and meet the terms of that loan.

The Cost of Credit Depends on Your Credit Score

Your credit score has a tremendous impact on your financial life. A credit score determines whether or not you can open a checking account, apply for a mortgage to buy a house or take out a loan to buy a car. Your credit score also determines what these types of loans and activities will cost you.

If you have a low credit score and are viewed as less creditworthy, then the lender is taking a bigger risk by providing you a loan and will therefore charge you a higher fee for borrowing money. If the reverse is true and you have a very high credit score, then more companies will be willing to lend to you money and at a much lower-cost.

How Do You Maintain a Good Credit Score?

To begin to build a good credit score and start creating a favorable credit history, you should open a checking account and apply for a low-limit credit card. Do not overdraw from your checking account, maintain a minimum balance and pay your credit card bills on time and in-full whenever possible.

In addition, having a track record of employment will be a factor in creating a good credit history, as it shows financial independence and stability. If you are not living at home, set up utility bills in your name and be sure you pay all bills in full and on time.

All of these financial activities are monitored by the credit agencies and contribute to your credit score. If you are overdrawn on your checking account or late paying your bills, then your credit score goes down hurting your ability to borrow money (or obtain credit) at a favorable rate.

Alternatively, if you build a history of being timely and responsible with your financial obligations, your credit score will be higher and you will have more companies competing to lend you credit at a good price.

Important to note! A low credit score can be difficult to improve. The best plan is to build a good credit history at a young age and then maintain that high score. A few late payments here and there do have an impact so make it a top priority to stay on top of all bills and financial responsibilities.

Having a low credit score is extremely expensive. It means you will pay more (potentially much more) to borrow money than someone with a high score or good credit history. To illustrate this, below is the cost for borrowing $100,000 mortgage (also called taking out a mortgage for $100,000) for someone with different credit scores. The total interest paid between what the person with the best and worst credit score is a whopping $34,826!

Interest Rates on Hypothetical $100,000 Loan for Different Credit

Credit Score	Interest Rate	Monthly Payment	Total Interest Paid
760-850	4.13%	$485	$74,620
700-759	4.35%	$498	$79,297
680-699	4.51%	$509	$83,070
660-679	4.75%	$521	$87,685
640-659	5.18%	$548	$97,147
620-639	5.72%	$582	$109,446

Credit Versus Debit Cards?

Both credit and debit cards are forms of electronic payment but they function in different ways and have different benefits and downsides. Below is a summary of the underlying payment transaction process for each type of card as well as the pros and cons for each format.

Example – You want to buy a $70 shirt at the Gap. What is the difference between using your debit or credit card?

- If you pay using your debit card, $70 is immediately subtracted from your bank account to pay the Gap.
- If you pay using a credit card, the credit card company pays the Gap $70 for you and sends you a bill for it later.

Using your debit card involves a direct transition from your bank account. It is essentially the same thing as taking out cash from your account to pay for the shirt. A credit card provides you with a short term loan. The credit card company agrees to pay for the shirt up front but then you have to pay them back for lending you money when you needed it.

You want to own both types of cards and think about which format is best for different purchases. Your debit card is probably the best payment option for items like groceries, gasoline and entertainment costs. For significant purchases like a computer, furniture or travel expenses, a credit card may provide you with protection against theft or damages should something go wrong. Credit cards can be dangerous if you overspend and get behind in paying your bill. The key is to pay your bill in full every month and carry little to no debt. When used wisely, a credit card helps you create a record of good spending and bill paying which raises your credit score.

Debit Card

Pros:

- Immediate withdrawl from your bank account, similar to taking out cash
- No ability to run up a bill
- No additional charges or fees (beyond ATM fees that may apply)
- Safer than carrying cash

Cons:

- Limited to what you have in your bank account
- Have to pay the full sum immediately so you can be left with too little money in your account for other expenses if you lose track of your spending
- Overdraft fees if you go below a $0.00 balance in your account

Credit Card

Pros:

- Provides the protection of a large corporation against theft and problem purchases
- Provides you with short-term loan for a larger sum than you may have in cash that you can pay off in segments
- Safer than carrying cash or a debit card

Cons:

- Can be easy to spend more than you have
- Interest rates for credit cards can be high. If you miss a payment or don't pay off the full bill when it's due, you will be penalized with interest fees and late fees, which can add up quickly.

What Are the Best Ways for Young Adults to Begin Investing?

As originally published in Worth

Welcome to Investing 101 – a four-step primer for young adults who are new to investing. It can be hard to find the time and money to invest early in your working life. This may be the first time you have had a full-time job and responsibility for bills and paying rent. Coming up with extra cash for investments may not seem like a top priority but the money you set aside and invest today will have the longest time to grow. So even if you are starting small, push yourself to do the following not only for the sake of growing your own portfolio, but to also begin to experience how investing works.

Step 1: Get your company's match money.

While plans differ by employer, many companies match employee contributions to their 401(k) or other qualified retirement plan, say, dollar for dollar for the first three percent contributed and 50 cents to the dollar for the next three percent.

If you have a $75,000 salary and set aside 5 percent, your $3,750 investment gets you $3,000 of free, tax-deferred money from your employer. That's an 80 percent return! But one quarter of participants in such plans fail to contribute enough to receive the full company match, according to TIAA-CREF. That is like walking away from part of your salary. Don't leave that money behind!

Step 2, Part A: Contribute to a Roth Individual Retirement Account (IRA) if you can.

If you make less than $137,000 (single) or $203,000 (married, filing jointly), you can contribute as much as $6,000 to a Roth in 2019. These contributions are after-tax money, but unless tax laws are changed, the earnings will never be taxed.

Step 2, Part B:

If you are unable to contribute to a Roth because your income exceeds the limits, as an alternative, make a nondeductible $5,500 contribution to a traditional IRA annually and convert it to a Roth. This back-door strategy is beneficial only if you use non-IRA or Roth IRA dollars to pay the tax on the conversion amount.

Step 3: Max-out your 401(k) account with additional income.

The current limit for total contributions is $19,000. (Those aged 50 and older are allowed an additional $6,000.) If you cannot max it out right away, allocate your annual raise to your account. That way, you will keep your spending in line as you earn more and will eventually max out.

The benefits of a 401(k) or like plan are numerous: Contributions are tax-deductible, earnings are tax-deferred and most plans do not allow investments in stocks, concentrated mutual fundsor exchange-traded funds. This limitation saves you from the temptation to put your retirement funds at risk by investing based on a hot-stock tip from a friend.

One important note on IRAs and 401Ks! These investments are intended for retirement and there is usually a steep penality fee for removing money before a determine age. Right now, barring a few exceptions, you cannot withdraw funds penalty-free from either a 401K or IRA before age 59 and a half.

Step 4: Set up a taxable investment account.

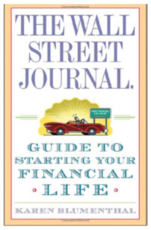
If you still have disposable income to sock away after maxing-out your 401(k) and Roth IRA, invest through a brokerage account or a registered investment adviser. The earnings on these investments will be taxed but unlike dollars in retirement accounts, you can redeem these investments at any point without paying a penalty.

In addition to the four steps outlined above, here are a few pointers regarding how to invest your assets. The primary driver of the return and risk of your portfolio will be your asset allocation. Asset allocation is the process of allocating your investments among different asset categories, such as stocks, bonds, and cash. Although asset allocation is a personal decision based upon your specific goals and your ability to tolerate the riskiness of the stock market, as a general rule most young investors should allocate most, if not all, of their portfolios to higher risk and higher expected return stock categories. In fact, it may not be necessary to allocate a substantial percentage of your assets to bonds before your early 40's. The next step is to select funds to match your desired asset allocation. You (or your family's investment advisor) should vet your fund choices. If you prefer a "hands-off" approach to investing, consider a target date fund that begins as mostly a stock portfolio and then automatically reduces the stock weighting as you become older and approach retirement. Finally, if you are not comfortable selecting specific funds, you should default to investing in index funds within each asset category. The S&P 500 index is an example.

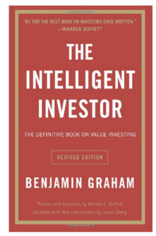
It may be impossible for those of you barely past college age to take all four of these steps immediately but be kind to your future self. Regardless of immediate financial obligations try to at least contribute enough to your 401(k) to get the full company match, and invest in a Roth IRA. Then have a goal to raise your investing amount annually.

Altair's Book Recommendations on Investing and Finance

There are many great books on investing and these are a few that we frequently recommend, particularly to clients who do not have an extensive background in fincance. You may want to consider ordering several of these books as they approach finance and investing in different ways. The links go directly to Amazon for reviews and ordering.

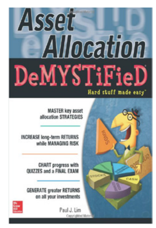


[The Wall Street Journal Guide to Starting Your Financial Life]
Karen Blumenthal

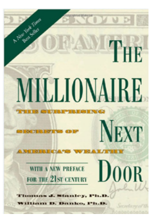


[The Intelligent Investor]
Benjamin Graham

[Financial Planning for Your First Job]
Matthew Brandeburg

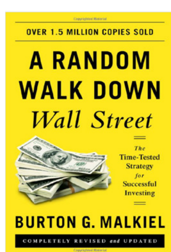


[Asset Allocation Demystified]
Paul Lin



[The Millionaire Next Door]
Thomas Stanley and William Danko

[All About Asset Allocation]
Richard Ferri



[A Random Walk Down Wall Street]
Burton Malkiel

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