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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

Pay Down Debt or Save for Retirement?

Like many people, you may be torn between paying off debt and the need to save for retirement. Both are important; both can help give you a more secure future. If you're not sure you can afford to tackle both at the same time, which should you choose? There's no one answer that's right for everyone, but here are some of the factors you should consider when making your decision.

Rate of investment return versus interest rate on debt

Probably the most common way to decide whether to pay off debt or to make investments is to consider whether you could earn a higher after-tax rate of return by investing than the after-tax interest rate you pay on the debt. For example, say you have a credit card on which you pay nondeductible interest of 18%. By getting rid of those interest payments, you're effectively getting an 18% return on your money. That means your money would generally need to earn an after-tax return greater than 18% to make investing a smarter choice than paying off debt.

That's a pretty tough challenge, and investment returns are anything but guaranteed. In general, the higher the rate of return, the greater the risk. If you make investments rather than pay off debt and your investments incur losses, you may still have debts to pay, but you won't have had the benefit of any gains. By contrast, the return that comes from eliminating high interest rate debt is a sure thing.

If you focus on retirement savings rather than paying down debt, make sure you're invested so that your return has a chance of exceeding the interest you owe on that debt. While your investments should be appropriate for your risk tolerance, if you invest too conservatively, the rate of return may not be high enough to offset the interest rate you'll continue to pay.

An employer's match may change the equation

If your employer matches a portion of your workplace retirement account contributions, that can make the debt versus savings decision more difficult. Let's say your company matches 50% of your contributions up to 6% of your salary. That means that you are earning an instant 50% return on that portion of your retirement account contributions.

If surpassing an 18% return from paying off debt is a challenge, getting a 50% return on your money simply through investing is even tougher. The old saying about a bird in the hand being worth two in the bush applies here. Assuming you conform to your plan's requirements and your company meets its plan obligations, you know in advance what your return from the match will be; very few investments can offer the same degree of certainty. That's why many financial experts argue that saving at least enough to get any employer match for your contributions may make more sense than focusing purely on debt.

Your choice doesn't have to be all or nothing

The decision about whether to save for retirement or pay off debt can sometimes be affected by the type of debt you have. For example, if you itemize deductions, the interest you pay on a mortgage is generally deductible on your federal tax return.

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Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source:
Raymond James Financial Services

To be entered into a drawing to win a
$25 Gift Card,
email free@thecommco.com with the answer to this question:

When did the current economic expansion begin?

Market Update

Through September 30, 2018		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	9.63%	20.76%	14.57%	12.22%
Large Company US Stocks	S&P 500	7.71%	17.91%	13.95%	11.97%
Small Company US Stocks	Russell 2000	3.58%	15.24%	11.07%	11.11%
Non-US Stocks	MSCI EAFE (Gross Div)	1.42%	3.25%	4.90%	5.87%
US Bonds	Barclay's Capital US Aggregate	0.02%	-1.22%	2.16%	3.77%
Cash Alternatives	FSTE 3 Month US Treasury Bill	0.50%	1.57%	0.49%	0.32%

Excerpts from Gleanings* September 25, 2018

Published by Raymond James and Associates: Jeffrey D. Saut, Chief Investment Strategist, Scott J. Brown, Ph.D., Andrew Adams, CFA, CMT

The Economy in Brief

The current economic expansion, which began in June 2009 and is the second longest on record, is widely expected to continue into 2019. The pace of growth is likely to moderate, reflecting job market constraints, less accommodative monetary policy, and a smaller impact from fiscal stimulus (relative to the first half of 2018). Wage and price inflation is likely to be a bit higher. However, for a variety of reasons, inflation pressures are expected to be limited compared to historical norms.

Trade Policy

The impact of import tariffs and foreign retaliation against U.S. exports, while significant in some sectors, should have only a minor impact on overall GDP growth and inflation into early 2019. However, a further deterioration in trade relations remains a downside risk and will likely have important long-term consequences.

Fed Policy Outlook

As widely expected, the Federal Open Market Committee raised rates by 0.25% on September 26, bringing the Federal Funds rate to 2.25%. Another hike is expected in mid-December. Fed officials are aware of increased policy risks (raising rates too rapidly or too slowly). Future policy decisions will remain data dependent – specifically, on what the incoming data imply regarding the outlook for growth and inflation.

**For a complete PDF copy of the Sept. 25, 2018 issue of Gleanings, click here or email gleanings@thecommco.com.*

U.S. Stocks Deliver a Strong Quarter

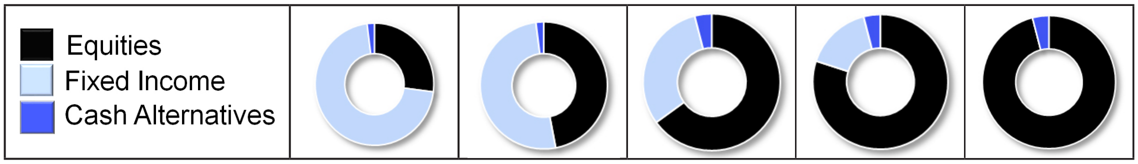
- Domestic equities were a mixed bag toward the end of September, but did quite well over the quarter. The Dow Jones Industrial Average was up 9% for the third quarter, the broad-market S&P 500 posted its best quarter in almost five years, up 7.2%, and the NASDAQ was up 7.1%.
- Headline news coming out of Washington, D.C. has given investors quite a few things to think about (midterm elections, the Mueller investigation, China trade tariffs and other unknowns), yet some investors have compartmentalized the fluidity of D.C.-related risk and have focused more on the strong underlying fundamentals of the economy and earnings.
- The president signed an $853 billion bill to fund the military and domestic programs, averting a partial government shutdown and postponing a potential political battle until after the midterm elections.

Asset allocation models can be viewed online anytime at ***thecommco.com***

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Strategic Asset Allocation Models

As of October 2018



	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**27%**	**47%**	**65%**	**80%**	**96%**
Equity allocation comprises:					
U.S. Large Cap Blend	15%	17%	21%	24%	29%
U.S. Large Cap Growth	0%	4%	6%	8%	9%
U.S. Large Cap Value	0%	4%	6%	8%	9%
U.S. Mid Cap Equity	2%	5%	7%	8%	11%
U.S. Small Cap Equity	1%	3%	4%	6%	6%
Non-U.S. Developed Market Equity	9%	14%	16%	21%	26%
Non-U.S. Emerging Market Equity	0%	0%	5%	5%	6%
Fixed Income	**71%**	**51%**	**31%**	**16%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	56%	42%	27%	16%	0%
Investment Grade Short Maturity	7%	5%	4%	0%	0%
Non-Investment Grade (High Yield)	3%	2%	0%	0%	0%
Multi-Sector Bond	5%	2%	0%	0%	0%
Cash & Cash Alternatives	**2%**	**2%**	**4%**	**4%**	**4%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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Let's say you're paying 5% on your mortgage and 18% on your credit card debt, and your employer matches 50% of your retirement account contributions. You might consider contributing enough to your retirement plan to get the full match, directing resources above that amount to pay down the credit card, and continuing to make only the required payments on the mortgage.

There's another good reason to explore ways to address both goals - time is your best ally when saving for retirement. If you say to yourself, "I'll wait to start investing until my debts are paid off," you run the risk that you'll never get to that point. Putting off saving also reduces the number of years you have left to save for retirement.

It might also be easier to address both goals if you can cut your interest payments by refinancing that debt. For example, you might be able to consolidate multiple credit card payments by rolling them over to a new credit card or a debt consolidation loan that has a lower interest rate. Bear in mind that even if you decide to focus on retirement savings, you should make sure that you're able to make at least the monthly minimum payments owed on your debt.

Whatever you choose, make it automatic

Automation is your best weapon against temptation. Having your retirement plan contributions automatically deducted from your paycheck eliminates the temptation to spend that money, since you never see it.

Along the same lines, when you decide to prioritize paying down debt, it can be useful to have payments automatically deducted from your checking account shortly after your paycheck is deposited, so that you won't be tempted to spend that money, skip payments, or reduce your payment amount.

Regardless of your choice, perhaps the most important decision you can make is to take action and get started now. The sooner you decide on a plan for both your debt and your need for retirement savings, the sooner you'll start to make progress toward achieving both goals.