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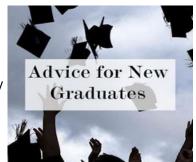




FINANCIAL ADVICE FOR COLLEGE GRADUATES

(Originally Published in May 2016 Monthly Commentary)

An important subject that is typically not taught in schools is how to develop great financial habits. Many of us learn these later in life, and unfortunately, some of us never really do. An ideal time for developing an understanding of how to handle money is as a new college graduate. I recommend passing this article on to any recent college grads that you know.



Here are my suggestions on how to develop great financial habits:

Make a Budget- While the term "budget" can have negative connotations, the reality is developing one can provide a financial framework to work within. Creating and staying within a budget gives confidence and a sense of accomplishment. It will help provide some warning that your spending is getting out of control so you can take corrective action before your finances are significantly impacted.

One simple way to do this is to allocate your "take-home pay" as follows:

- 50% to needs such as rent, utilities, and groceries
- 30% to "wants" such as shopping, entertainment, restaurants, and vacations
- 20% to savings, investing and debt repayment.

There are online programs like MINT which can help automate the tracking of your expenditures.

2) Contribute to a Retirement Plan- If your employer offers a retirement plan such as a 401(k), start contributing right away. This provides a tax benefit as contributions are made with "pre-tax" dollars and the funds grow tax-deferred. At a minimum, contribute at least up to the amount that allows for the full company match. My rule of thumb is to save at least 10% of your income.

Albert Einstein purportedly once said, "The most powerful force in the universe is compound interest." The following graph from The Schwab Center for Financial Research illustrates the powerful impact of compounding on an Investment plan. (Note the disclosure regarding this assumes 6% average annual growth and does not account for any fees, costs or taxes.) The difference between the two graphs is the one in green had the investor start contributing at age 18 rather than age 40.

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Investment Management Services:

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Financial Planning Services:

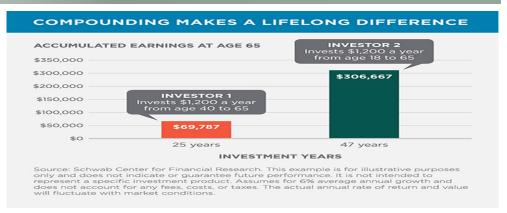
- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

<u>Tax Services</u>: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

Long Term Care Planning
 – Allen Hamm of Superior LTC Planning Services, Inc.



- 3) Establish an Emergency Fund- An emergency savings account is a great way to handle unexpected financial expenses. People often go into debt to cover unforeseen expenses, but it's a problem that can be solved with a little planning. By contributing a small amount of each paycheck into a conservative investment savings account, you will be better prepared to pay for life's inevitable emergencies.
- 4) Pay down Debt; Avoid Incurring Credit Card Debt- Strive to pay off your debt, including student loans, as quickly as you can. Don't just make the minimum payment, as that will result in little progress. Keep in mind that paying off your debt provides a guaranteed return (equal to the interest rate on the debt), which isn't the case for nearly all investments. Just as important, don't incur additional debt by using credit cards to spend beyond your means. Credit card companies prey on college grads as they are ideal candidates to carry high balances on their cards. The reality is that while credit cards may allow you to live beyond your means for a while, over time you will have a lower standard of living as the expensive interest charges will reduce what will be available for future discretionary spending.
- 5) Pay Yourself First by Automating Your Savings and Investing- Set up an automatic transfer from your checking account to your investment or savings accounts. By doing this, effectively you are drawing money straight from your paycheck to "pay yourself first." A Roth IRA account is a great way to save. For 2016, a maximum of \$5,500 can be contributed (for those under age 50 and assuming they qualify based on their adjusted gross and earned income). These accounts are ideal for younger investors who may benefit from decades of tax-free compounded growth.
- 6) Learn about Investing & Good Financial Habits- One of my favorite personal finance books is the "Millionaire Next Door." Written in 1996, the book offers timeless insights into common traits shared by many millionaires. It suggests living below your means and achieving financial independence rather than displaying high social status. A favorite personal finance magazine is "Kiplinger's Personal Finance," which offers basic but valuable advice related to personal money management and investing.