The Light

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The Key To Building Wealth

By Tim Rowsey, CPA, Investment Advisor Rep.

One of the most basic rules of financial planning is so simple and yet so challenging that many people have a difficult time ever fully embracing it. This is a concept that is applicable for a student finishing school and just entering the workforce, a couple raising children, or a retired person living on a fixed income. It is a concept that can enable people to build great wealth over time and also to enjoy a less stressful life. It runs counter to most Americans' popular view of life and how to live, but if it is mastered it can be extremely fulfilling. What is this concept? ***"Spend less than you earn."***

This is not a new concept and in fact can be referenced even in literature of over one hundred years ago. Charles Dickens referenced it in David Copperfield, equating happiness with spending less than income and misery with spending more than income. See his quote below.

***"Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."* — Charles Dickens, David Copperfield**

There are two possible components of this wealth building equation. The first is reducing expenditures below the level of current income. The major challenge in this is that it requires discipline and self-denial. Much like going on a diet, the financial benefits are worthwhile long term but may require some short term sacrifice. The larger the margin between income and expenses, the greater the resources that become available for saving and wealth building. Most Americans today have some level of discretion on how they spend their income. The major challenge is deciding what is a need vs. what is a want.

With easy credit availability many people today don't even realize that they are spending more than their income. Advertising and media tell us that we need to spend more, that we deserve it, that we shouldn't deny our spending wants and desires. Recent surveys indicate that for

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Are we There Yet?

By Tim Rowsey, CPA, Investment Advisor Rep.

Anyone who has ever traveled very far with small children has probably heard the question over and over as the miles and time went on and on: "Are we there yet?" The patience of a child can be easily tested, and on a long journey they soon wonder if the destination is close or how long it can possibly be until they arrive. As advisors helping clients plan for retirement, we often get a variation of this same question.

One important component of planning for retirement, much like planning for a trip, is to have a destination in mind. English author Lewis Carroll once famously commented, "If you don't know where you are going, any road will get you there." Part of our role in helping our clients as advisors and planners is to develop a plan for retirement that matches their desired destination and is affordable and reasonable.

Some of the components that go into a retirement plan include the funding vehicles to gather assets for future retirement. This typically includes some kind of company sponsored plan such as a company pension or 401(k). There may also be additional components added, such as the use of 403(b) plans for those eligible, or Roth or contributory IRA's. Additionally, for some individuals, Social Security may be a component of their future retirement income.

Another major issue that is an important part of any retirement plan is the income level needed in retirement. The planning and funding is vastly different to provide an income stream of $100,000 per year versus an income stream of $40,000 per year. Personal lifestyle and spending patterns are major contributors in the funds needed in retirement.

The time available from today until retirement is another piece of the retirement plan. Those starting in their 20's or 30's have the inherent advantage of time. A much smaller amount can be put away monthly and still provide a significant retirement income if retirement is to be in their 60's. For

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households that have credit card debt, the average amount owed is over $6,000. In reality for most people there are many decisions that we make that could be used to impact our expenditures. Where or how often do we eat out, what kind of car do we drive, how large is the house in which we live? How many cell phones do we have and what kind of plan are we on? Starbucks coffee, McDonald's coffee, or home-brewed coffee? Every day we make choices on how we live and what costs are associated with our lifestyle.

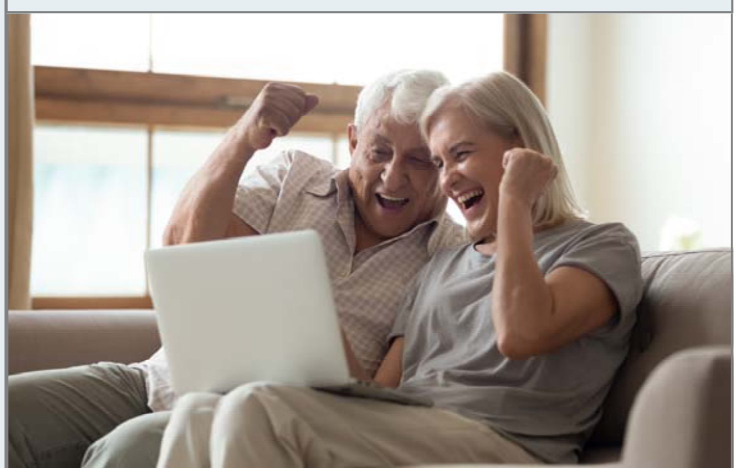
In retirement planning for clients, we see a wide range of income levels that people expect in their retirement years. We have met with two families in the same week and asked them how much income they needed to live comfortably in retirement. One family thought they would be happy with annual income of $35,000 per year, while the second stated that they needed $120,000 per year. Obviously the retirement assets and income stream needed by the second family will be much larger than the first and will require much more savings to achieve.

One of the first steps in spending less than you earn is to know exactly how much you do earn and spend. For most people the income side of the equation is relatively easy to determine. The challenging part is knowing where all the money goes. One of the steps that we commonly suggest to clients is tracking all of their expenses for one month. Most people are shocked to see how much they spend on various categories if they actually commit to documenting every dollar spent for one month. This information can be very helpful in making informed choices about what to adjust if, in fact, the expenses exceed the household income. Once the outflows are known, a budget can be used as a tool to help keep expenses below income. A budget is nothing more than a financial spending plan. It is one of the tools that can help clients understand their choices relating to their income and stay on the path to spending less than they earn.

The other component of this equation is the income side. This is another way for the income to exceed the expenses if the income can be raised. There are several possible ways to increase this side of the equation. Some options would be to work more hours, get a second job, or if retired already take a part time job. One trend we are seeing more and more is retired people working at least part time, both to increase the household income and also to have an outlet to interact with other people and get out of the house. Another income increasing option would be to start your own business. Another consideration is to sell an asset or something of value that you no longer really need. Today, there is a market for almost anything through Ebay or other venues.

While this concept of spending less than you earn may seem easier as income rises, we have been amazed through the years to see people with a relatively low income stream spend less than their income and accumulate significant assets over their lifetime. Many people in their seventies and eighties who grew up during the depression learned early how to control their expenses. Today many of these same people who have continued that careful spending lifestyle have resources significantly beyond their current spending needs.

If you have a desire to grow wealth over time, or to reach longer term goals such as retirement or saving for college, you need to begin with this basic principle. If you can in fact keep your spending beneath the level of your income, you will be taking the first major step toward reaching your long term goals and in the words of Charles Dickens trading "misery" for "happiness." ■



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those desiring an early retirement, additional funding, or a reduced income level in retirement may be a concession to that plan that may have to be made.

Once a plan is in place and the plan for the retirement "trip" has begun, it is important to check in along the way. Just as the GPS or map helps us along a road trip, an annual review of investments, contributions to retirement plans and other adjustments is an important part of the retirement plan.

We spend a good amount of time with clients as the retirement years near, checking to see if there is a possibility that we are "there yet" and retirement may be a real possibility now. Many people who have done a good job of planning and have made faithful periodic funding into their various retirement vehicles are pleasantly surprised to learn that they can actually retire, possibly even sooner than they originally expected. We enjoy the opportunity to help our clients through this entire process and especially in the many decisions that need to be made when the actual retirement decision is upon them.

Even beyond the "arrival" at retirement there is still some important work to be done. At this stage, we often help our clients with the peace of mind of knowing that their investments are wisely and safely invested, and that they can receive an income stream that will support them comfortably through their retirement years. As the trusted advisor for our clients, we enjoy helping them through this entire process from the early stages of planning, the many checkups and modifications throughout the journey, and finally the retirement years when the client can enjoy grandchildren, travel, or whatever their priorities are without concerning themselves with the resources that can provide for their needs. At this point the answer to the "are we there yet" question is yes! You have safely arrived. ■

Market Recap

How the major indices performed in the 1st Quarter 2021

DOW JONES INDUSTRIAL AVERAGE				
1st Quarter return	7.76%	YTD return	7.76%
S & P 500 COMPOSITE				
1st Quarter return	5.77%	YTD return	5.77%
RUSSELL 2000				
1st Quarter return	12.44%	YTD return	12.44%
BARCLAYS AGGREGATE BOND				
1st Quarter return	-3.37%	YTD return	-3.37%
NASDAQ COMPOSITE				
1st Quarter return	2.78%	YTD return	2.78%

*All indices are reported Total Return which includes Dividends

Market Update

By Greg Emmons, CFP® Investment Advisor Rep.

Solid, steady climb for equity markets
The market, in many ways, is still digesting one of the strangest years in its history. Through it all the equity markets marched onward and upward. For the first quarter the S&P 500 and the DOW were up 5.8% and 7.8% respectively. The technology basket of stocks represented by the NASDAQ went on a little bit of ride reaching an all-high on Feb 12th only to drop by 11%. Even with this correction the index still finished up 2.8% for the first three months.

Bonds take a step back
The Barclays Aggregate Bond Index slid by 3.3% for the quarter. The yield for the US 10 Year Treasury Note started the year at 0.9% and ended up at 1.7%. Because of the inverse relationship with bond prices and interest rates it wasn't much of a surprise to see the bond market negatively affected. The Federal Reserve doesn't appear to be wavering in their approach. They have gone on record several times indicating that short term rates will remain low until at least 2023.

Inflation on the Rise?
Inflation can be defined as too much money chasing too few goods and services. The argument for inflation is fairly easy to grasp. There's no question our federal government has been spending money. To help combat the coronavirus the money supply has increased 25% from a year ago in the forms of stimulus checks, PPP loans, increased unemployment benefits and several other programs. A result of this is that consumers' disposable incomes are substantially higher. It's fairly safe to assume we will see an uptick for inflation in the near future. The next report of the CPI (consumer price index) is projected to be in the 2.5% range, up from 1.7% a year ago. The Fed will be keeping a close eye on this and low rates will help but only time will tell how they will manage this balancing act . ■

Lighthouse Wealth Management
1078 Commerce Parkway
Ashland, Ohio 44805

Tim Rowsey, CPA, President
Investment Advisor Representative
Cell: 567-215-3015
trowsey@lightwealth.com

Aaron Rowsey, Vice President
Investment Advisor Representative
Cell: 419-606-5239
arowsey@lightwealth.com

Greg Emmons, CFP®
Investment Advisor Representative
Cell: 419-651-1507
gemmons@lightwealth.com

Chris Bevington, CPA, MTAX, CFP®
Investment Advisor Representative
Cell: 419-569-2139
cbevington@lightwealth.com

Cheri Smeltzer, Office Manager/
Compliance Specialist
csmeltzer@lightwealth.com

Main office phone: 419-496-0016
Fax: 419-496-0054
www.lightwealth.com

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