CYPRESS FINANCIAL REVIEW

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Cypress Financial Planning, LLC

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Financial Tips for Twentysomethings

For most people, your twenties represents a decade of unprecedented change and increased responsibility. Graduating from college, beginning a career and ending dependence upon parents for financial support are all major milestones. The list may even grow to purchasing a first home, getting married, and starting a family. With no formal training on how to successfully navigate the financial implications of these events, many young adults flounder during this crucial phase of their lives.

Start a Career Path

Most college graduates remain uncertain about exactly what type of career they will ultimately pursue. This does not mean that it is ok to float around wherever the employment current may push you, however. The earlier in your career that you can commit to a certain track, the easier it is to build the job skills necessary for the future. Large employers usually have internal training programs to help young new hires learn about different career paths and prepare them for the one they may find especially interesting. Finding a professional mentor with significantly more experience in your field can be incredibly useful in the planning process. An equally important strategy is to build a network of professional connections. Like it or not, in our business world, "who you know" is often more important than "what you know." Take the time to build a profile on LinkedIn and connect with people with whom you have had a genuine business relationship. With 88% of workers aged 23 to 27 staying with their employer for fewer than five years, you will be depending on your network outside of your current company to help with your next move.

Manage Your Debt

For most people in this age bracket, efficient handling of their debt situation is often more critical than investing. According to Sallie Mae, college graduates leave school with an average credit card debt of $4,100, not to mention the average student loan debt of $23,200! Debt is a unique beast in that it can either become increasingly easier to manage or snowball out-of-control. If you have a plan in place and diligently work to tackle debt, starting with the highest interest rate, each month less interest will accrue and more principal can be paid down, until there is nothing left. However, if you sporadically make debt payments and continue to utilize credit cards for lifestyle expenses, more and more interest will accrue and debt balances will skyrocket until they are largely unmanageable.

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Take Control of Your Credit Score

For the remainder of your adult life, it will be very important to have a high credit score in order to obtain favorable interest rates on mortgages or auto loans. Your 20's is a good time to build a positive credit history. Begin by requesting a full credit report for free at www.annualcreditreport.com. This report will reveal any past events that are negatively impacting your credit score, including late payments. If there are any inconsistencies or errors, you can contact the credit rating agencies to dispute. Another good step is to sign up for a free account at www.creditkarma.com. This site will actually display your credit score as calculated by TransUnion, and drill down into the specific factors that affect this score. At minimum, you want to have a credit card in your name with as high a credit limit as possible, and always make on-time payments.

Build an Emergency Fund

In case the unexpected happens, it is wise to have readily available funds to cover at least three to six months' worth of expenses, preferably in a savings account that is separate from the checking account you use for daily cash management. Getting laid off, a car breaking down, or unexpected medical expenses are just a few examples of very real risks that could quickly bankrupt an unprepared twentysomething.

Control Your Cash Flow

Every adult remembers receiving their first paycheck (or direct deposit pay stub) from a full-time job. With so much money coming in, visions began to swirl in your brain about all the luxuries you could now afford. The best advice for this transition is that of moderation. Striking a balance between living a comfortable lifestyle in the present and setting aside a reasonable portion of your income for the future is a prudent choice. Reserving 15% of your salary towards retirement or another future goal (such as a wedding or down payment on a house) is ideal. Many budgeting tools are available – one excellent and free recommendation is www.mint.com which was the focus of an earlier newsletter. Having a budget in place helps to actively manage your cash flow, identify potential areas of waste and overspending, and efficiently capture excess income into a savings vehicle. The easiest way to accomplish this is to have a portion of your direct deposited paycheck automatically transferred into long-term savings vehicles.

Save for Retirement

It is human nature to focus attention on what is in front of you. This explains why it is so difficult to choose to direct $100 into an account designed for a benefit 40 years away as opposed to spending a night out on the town with friends. If we could travel through time, however, your future selves would be eternally grateful for the responsibility you display early in your working years because that $100 will likely now provide the equivalent of a few nights out on the town in purchasing power. To illustrate the power of compound interest and how important it is to save early, let's look at what it takes to reach $1,000,000 by age 65. Starting at age 25, you would need to save only **$3,860** per year with an 8% annual return. Delaying retirement saving until age 45, however, requires yearly contributions of **$21,852**! Which is an easier pill to swallow?

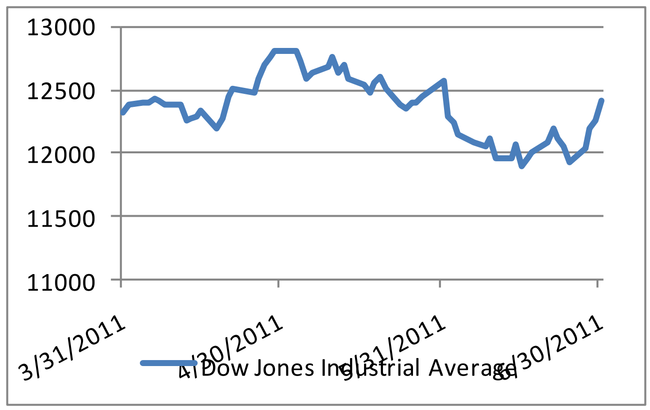
Step one is to utilize your employer's 401(k) or 403(b) plan. At minimum, contribute at least enough to receive any match offered by the company. If you have the means and the discipline for further savings, step two is to contribute the maximum $5,000 per year into a Roth IRA. As you will be increasing your earnings power as you progress through the workforce, it is recommended to pay the taxes now at relatively lower rates and then build an account whose distributions will eventually be completely tax free.

Get Help

Not many people of any age enjoy financial management. Few have the personal discipline to maintain budgets. Fewer still have the confidence to make appropriate financial and investing decisions, especially when the stock market is as volatile as it has been over the past few years. Engaging the services of a qualified financial planner is a sound decision to help strike the balance between enjoying life now and accomplishing future goals.

Second Quarter Economic Review

The second quarter began by picking up right where the first quarter left off. After rising over 6% in the first three months of the year, the Dow Jones Industrial Average finished April up another 4%, thanks to strong earnings reports from US corporations. However, in a similar fashion to last year, a small country in Europe brought the global stock market to its knees once again. Fears that Greece would be unable to repay its debt sent the market down over 7% during May and June. As a second bailout package was gaining traction, fear subsided and stocks began to advance again, not regaining positive territory for the quarter until the very last day, scraping out a ¾% gain.



US Economy

The second quarter provided signs that our economic recovery is at risk of stalling. In May, the economy added just 54,000 jobs and new unemployment claims data are lackluster. The unemployment rate has slowly crept upward throughout the quarter and currently stands at 9.1%, well above normal levels. As employment goes hand-in-hand with spending, consumers are feeling less confident. In June, the Thomson Reuters/University of Michigan consumer sentiment index slipped to 71.5 from 74.3 in May. Contrast that with an average reading of 86.9 before the recession hit in 2007, it is apparent that our economy has not reached the level of health that most Americans desire. Since the recession officially ended in mid-2009, the growth rate of our economy as a whole has averaged 2.8%. That figure is roughly on par with the recovery after the much milder recession of 2001, and significantly slower than the 7.1% growth rate after the deep 1982 recession.

Greece Crisis

The financial woes that have been ailing Greece since last year are continuing to persist. In a show of solidarity, the euro-zone has gone to great lengths to ensure that one of its smallest members avoids defaulting on its debt. Although a bailout package was reached last year, it has since become clear that Greece's debt situation is so severe that more assistance is required. Stronger, more disciplined countries like Germany balked at the idea of providing more assistance to their spendthrift neighbors.

Bailing out Greece is essentially bailing out the holders of Greek debt, because without extraordinary assistance, the bondholders will suffer losses. Germany originally wanted bondholders to suffer some consequences for lending to a risky country, but has since changed its stance. The popular view currently is to ask holders of Greek bonds that are maturing soon to "voluntarily roll" their bonds by agreeing to purchase new bonds with longer maturities. This type of structure would partner private entities, namely European banks who hold the majority of Greek debt, with the Euro zone and the International Monetary Fund who are the two entities keeping Greece afloat.

This continued funding is costing Greece a series of drastic austerity measures, including higher taxes, significant spending cuts, and selling of government assets to private institutions. These measures have been met with deadly street protests by Greek citizens. However, the Greek government recognized the necessity of the bailout funds and voted heavily in favor of enacting the austerity measures.

Fed Bond Buying Program

June 30th marked the end of an unprecedented bond buying program by the Federal Reserve. Nicknamed "QE2" which is short for quantitative easing, $600 billion of new dollars were pumped into the financial markets and used to purchase Treasuries in an attempt to keep interest rates low and spur economic growth. The purchases did accomplish one of their intended results of boosting financial markets, with the S&P 500 index up 25% since last August, when details of the program were first disseminated to the public. Partly due to QE2, the value of the dollar also declined, making US exporters more competitive. However, the pace of growth during the first half of 2011, when the bond purchases took place, is tracking around a 2% pace which is slower than past recoveries and well below prior expectations.

Now that we have reached the end of the program, many fear that interest rates will begin to rise. While QE2 was in process, the Fed was buying about 85% of all Treasury bond issuances. That demand will have to be replaced by other bond investors, who will likely require higher yields to absorb all the supply. Federal Reserve Chairman Ben Bernanke has indicated that there will be no QE3. "As of last August, inflation was too low and falling, and unemployment looked like it might be even beginning to rise… I think we are in a different position today."

Federal Deficit Discussions

Negotiations between the Obama administration and members of Congress regarding our Federal budget are raging in Washington, causing significant consequences to the stock market with each new headline. Democrats and Republicans both agree that the severe budget deficits incurred during the past three years are unsustainable going forward and that deep cuts are necessary to prevent our national debt from becoming unbearable. Leaders in the talks have agreed on an outline to cut federal spending by about $1 trillion over at least ten years, but are deadlocked over whether to include tax increases as part of the new plan. This past week, President Obama offered support for ending tax breaks for corporate jet owners, hedge fund managers and oil companies and met significant Republican criticism.

Similar to a household budget, any year that the government runs a deficit (spends more than it takes in as tax revenues) results in an increase in our national debt. At present, the US owes $9.7 trillion in public debt in the form of Treasury bills, notes and bonds. If every US citizen donated $47,000 to the government, the debt would be entirely paid off! While these numbers seem staggering, economists measure the total debt load of a country by comparing it to the size of that country, as measured by its Gross Domestic Product, the total amount of goods and services produced annually. Last year, the public debt was about 58% of US GDP, which compares favorably to the UK's 77% of GDP, Greece's 143% and Japan's pre-earthquake 226%! Moreover, if bond investors began to question our government's ability to repay its obligations, they would demand higher interest rates to compensate for the risk. However, a 10-yr note yields only 3.17% and a 5-yr note yields 1.5% - less than the current rate of inflation! Investors trust the US Treasury because it has never defaulted and because we have a robust and versatile economy.

Lawmakers have an additional reason to reach a compromise on the budget expediently. The government has a self-imposed borrowing limit that was reached back in May. Emergency funding maneuvers have kept the government afloat, but the official deadline for lawmakers to raise the debt limit is August 2nd, at which time they will lack the cash necessary to pay all their bills and risk defaulting. Our national debt ceiling has been increased almost 100 times in the past and is usually a simple procedural vote. However, lawmakers are using this vote as a bargaining chip for future spending measures, intertwining the two issues. President Obama is pushing for congressional leaders to agree on a deal by July 22nd. Many economists believe that failing to raise the debt ceiling by August 2nd would be catastrophic, sending interest rates soaring and stocks plunging worldwide.