10 WEALTH ERODERS

TEN STRATEGIES TO PREVENT WEALTH EROSION

HELPING YOU PURSUE FINANCIAL INDEPENDENCE

At Trilogy Financial, we focus on the financial circumstances and goals that are unique to you and your family. With that information, we help you create a personalized financial strategy based on your short-term and long-term objectives, then monitor together to help you stay on track.

OUR SERVICES AND STRATEGIES INCLUDE:

- 401K asset management
- Retirement planning
- Business strategies
- Investment planning
- Budgeting
- Estate and inheritance planning
- Life and long-term care insurance
- College and education
- Risk management
- Tax efficient strategies
- Tax-free and tax-deferred growth
- Gifting strategies

TrilogyFS.com

How well you take care of what you have. We constantly hear about all the ways to build wealth and invest it. But, what about the items that create headwinds against our efforts to build wealth. These are just as important. Did you know that if you reduced these wealth eroders by as little as 2% per year during your working life (about 40 years) you could have more than twice as much wealth by retirement?[1]

> **Too often, individuals focus solely on the earnings side of their financial equation, neglecting the silent but significant impact of wealth eroders on their net worth. As Warren Buffett wisely stated, 'Do not save what is left after spending; instead spend what is left after saving.' At Trilogy we understand the value in amplifying your wealth and can help you begin with good habits by subtly addressing these 10 wealth eroders."**

10 WEALTH ERODERS

1. **Taxes**
2. **Credit Cards**
3. **Depreciation**
4. **Market Cyclicality**
5. **Lack of Diversification**
6. **"Unexpected" Expenses**
7. **Misaligned Investments**
8. **Procrastination**
9. **Lack of Planning**
10. **Lack of Proper Protection**

[1]Source: Trilogy Financial Advisor Nathan Brown

TAXES

Frustrated by the feeling that taxes are silently chipping away at your hard-earned money? You're not alone. The complexity of navigating taxes can feel overwhelming, leaving you wondering if you're giving away more than you need to. Yet, the aspiration to maximize your savings and invest in your future is a powerful motivator. By understanding and applying strategic tax planning, you can turn frustration into empowerment, ensuring that every dollar you earn works harder for you.

Let's start with taxes. We all must pay them, and the cost is significant. The average US worker currently has to work until mid-April to pay their tax liability. Of course, for those who earn more, the date may be even later.[1]

In addition, the tax system is structured so that the more one earns the higher percentage of taxes one needs to pay. For instance, a married couple who have an income in 2024 over $23,201 would have to pay 12 cents on every dollar; and, for taxable income over $94,301, it becomes 22 cents on every dollar. Plus, it keeps going up from there. And, this doesn't yet include state taxes.[2]

WHILE EVERYONE MUST PAY TAXES, STRATEGIES DO EXIST TO HELP MANAGE THEM.

To mitigate the impact of taxes on wealth accumulation, individuals can employ several tax-advantaged strategies. One effective method is to maximize contributions to retirement accounts like IRAs and 401(k)s, which offer tax benefits either up front, through tax-deductible contributions, or in retirement, with tax-free withdrawals in the case of Roth accounts. Additionally, considering health savings accounts (HSAs) for medical expenses can provide triple tax advantages: tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified medical expenses.

STRATEGIC TAX PLANNING

According to the Tax Foundation, in 2023, Americans spent more on taxes than on food, clothing, and housing combined. The average effective income tax rate for middle-income households was approximately 14%, highlighting the significant impact of taxes on disposable income. This figure underscores the necessity for strategic tax planning to ensure that individuals are not unnecessarily eroding their wealth through inefficient tax management.

[1]Source: Tax Foundation, 2015
[2]Source: IRS tax tables

CREDIT CARDS

Are you worried that credit card debt is keeping you from achieving your financial dreams? The fear of spiraling into an endless cycle of high interest and penalties is real and shared by many. Yet, there's a path to freedom. With the right knowledge and actions, you can transform this challenge into an opportunity for growth, learning to leverage credit wisely to support your aspirations.

The next area that can be costly to your net worth is that of interest/penalties and depreciation. Most of us carry debt. Some of that is good debt such as a mortgage – as very few people can afford to buy a home outright - and some is not-so-good debt, such as credit card debt. Typical credit card interest can be 22% or more. That means for every $1000 carried for one year, the credit card lender will charge $220 or more. In addition, penalties for late payment or underpayment can add to this cost. The average US household carried $21,800 in non-mortgage debt in 2023. If this amount of debt is carried at 22%, that would mean an annual expense of $4,796 per year.[1]

> **"As Nobel laureate Milton Friedman once remarked, 'The hardest thing in the world to understand is the income tax.' Navigate the complexity of tax laws with a Trilogy Advisor and let them help you create a strategic tax plan to navigate them effectively."**

A strategic approach to managing credit card debt involves implementing a debt reduction plan, such as the debt snowball or avalanche methods. By focusing on paying off debts with the highest interest rates first (debt avalanche) or starting with the smallest debts for psychological wins (debt snowball), individuals can systematically reduce their debt load. Additionally, consolidating credit card debt through a lower-interest personal loan or a balance transfer credit card with a 0% introductory APR offer can significantly reduce the amount of interest paid. Coupled with a disciplined budgeting plan that prioritizes essential expenses and minimizes new debt accumulation, these strategies can be effective in overcoming the wealth-eroding effects of credit card debt. Engaging with a financial advisor for personalized advice can further enhance this strategy's effectiveness.

Overcoming the challenge of credit card debt is a crucial step toward financial freedom. By taking control of your debt, you're not just clearing balances; you're paving the way for a brighter financial future. Consult with a Trilogy financial advisor to explore strategies for managing debt and leveraging credit to your advantage.

[1]Source: Northwestern Mutual

DEPRECIATION

Watching the value of your possessions, like your car or electronics, diminish over time can be disheartening, especially when you've invested so much into them. This frustration taps into our desire for stability and growth. However, understanding depreciation's impact on your wealth can be a great step toward making smarter choices that align with your aspirations for financial security and prosperity.

In this same vein, another eroder of wealth is depreciation. The example we're most familiar with is our car. According to Lendingtree, a new car can lose as much as 20% of its value in the first year and 15% of its value in each of the following years. This means that a new car purchased for $40,000 will lose about $20K of value in the first 4 years, and another $10,000 of value in the next four years. So, one strategy for combatting depreciation is to keep a car for longer. In addition, car insurance costs are lower for older cars. Other examples of commonly held depreciating assets are motor homes, boats, and household appliances.

To combat the wealth erosion caused by depreciation, consider adopting a 'buy and hold' approach to significant purchases, especially vehicles. Opting for slightly used cars can also be a financially savvy choice, as the initial depreciation hit has already been absorbed by the first owner. Additionally, focusing on the purchase of assets that appreciate or depreciate less over time, such as real estate in prime locations or classic cars in mint condition, can further protect against depreciation. Emphasizing the value of experiences over material possessions not only enriches life but also mitigates the financial losses associated with depreciation.

Depreciation doesn't have to be a silent wealth eroder. With strategic purchasing decisions and a deeper understanding of asset value, you can minimize its impact. Engage with a Trilogy advisor to learn how to make assets work for you, not against you, in your wealth-building journey.

MARKET CYCLICALITY

DOES THE ROLLERCOASTER RIDE OF MARKET UPS AND DOWNS LEAVE YOU FEELING ANXIOUS ABOUT YOUR INVESTMENTS?

The uncertainty can be frustrating, challenging your aspirations for a stable and prosperous future. But with the right strategy, this fear can transform into an informed confidence, guiding you to make investment choices that weather market volatility.

Markets are unpredictable. At any point, we may be surprised by an unexpected turn in any given market. A good example is what happened in the stock market crash of 2008. A significant drop in the market produced a quick erosion of retirement funds. As a result, many people sold out of the market and locked in their losses. Those who didn't saw their portfolios recover by 2013.

To navigate market cyclicality, a diversified investment strategy is essential.

- Diversify your investments across different asset classes, including stocks, bonds, and real estate.
- Spread your investments across various geographies to reduce the impact of market volatility.
- Implement a dollar-cost averaging strategy by investing a fixed amount of money at regular intervals.

This strategy enables investors to buy more shares when prices are low and fewer when prices are high, potentially lowering the average cost per share over time. Consulting with a financial advisor to tailor a diversified portfolio that aligns with your risk tolerance and investment horizon can provide further resilience against market cyclicality.

NAVIGATING VOLATILITY

Research from J.P. Morgan Asset Management indicates that over the last 20 years, six of the best ten trading days occurred within two weeks of the ten worst days. Investors who panicked and sold off their assets during downturns potentially missed out on substantial recoveries. This statistic highlights the peril of making investment decisions based on short-term market movements.

Market fluctuations are a natural part of investing, but they don't have to derail your financial goals. With the right approach, you can navigate market cycles with confidence. A Trilogy financial advisor can help you develop a diversified portfolio that strives to stand strong against market volatility.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Dollar cost averaging involves continuous investment in securities regardless of fluctuations in price levels. Investors should consider their ability to continue purchasing through periods of low price levels. Investing involves risk including loss of principal. No strategy assures success or protects against loss.

LACK OF DIVERSIFICATION

Putting all your eggs in one basket can seem like a straightforward path to growth, but what if that basket falls? The fear of losing hard-earned wealth due to a lack of diversification resonates deeply. Understanding how to spread your investments can turn this fear into a strategic advantage, fueling your aspirations for a secure and thriving financial future.

We also see the same trends as we drill down into the details. For example, in the stock market, different asset classes perform differently over time. No asset class is up every year or down every year. So, if a person invests in only one market and/or one asset class, they may do well in one year, but not so well in another year. Gains can be quickly eroded by lack of diversification. Whereas, in a properly diversified portfolio, some asset classes can perform well and others less well, historically resulting in less volatility and a lower chance of long-term losses.

Understanding the importance of diversification can help manage investment risks. A diversified investment strategy might include a mix of asset classes such as equities, fixed income, and other alternatives. Diversifying investments across various sectors and regions can contribute to a balanced financial approach. Broad market instruments like ETFs or mutual funds offer a straightforward way to achieve diversification. Regular consultations with a financial advisor for portfolio review and rebalancing can keep your strategy aligned with your objectives and adaptable to market shifts.

Diversification is more than just a strategy; it's a safeguard for your investments. By spreading your assets across various classes, you protect yourself from the unpredictable nature of markets. Trilogy's advisors are skilled in crafting diversified portfolios that align with your personal financial goals and risk tolerance.

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"UNEXPECTED" EXPENSES

The sudden shock of unexpected expenses can shake your confidence, leaving you feeling unprepared and vulnerable. This taps into a primal fear of uncertainty. By adopting a proactive approach to savings, you can transform this fear into a sense of security, aligning with your aspirations for a stable and worry-free financial life.

Another area where many Americans have regular surprises is "unexpected" expenses. Such common occurrences as auto repairs, medical expenses, home repairs, or a pet getting sick, even up to and including the loss of a job are often unaccounted for in most household budgets. In fact, only 23% of households have 6 months' worth of expenses in savings. The net result is a cycle of debt that incurs interest and that is often never fully paid off as new "emergencies" pop up.[1]

To safeguard against the financial impact of unexpected expenses, establishing an emergency fund is paramount. This fund should ideally cover 3-6 months' worth of living expenses, providing a buffer that allows you to handle sudden financial needs without resorting to high-interest debt options like credit cards.

- Start with a small savings goal, such as $1,000, and gradually increase the amount to make saving more manageable.
- Automate your savings by setting up direct transfers from your income to a savings account each pay period.
- Review and adjust your budget to identify areas where you can reduce discretionary spending, accelerating your emergency fund growth.

Preparing for unexpected expenses is key to maintaining financial stability. An emergency fund isn't just a buffer—it's increased confidence. Consulting with a Trilogy advisor can help you establish a savings strategy that ensures you're ready for anything life throws your way.

EMERGENCY READINESS

A survey conducted by the Federal Reserve found that 40% of American adults would not be able to cover a $400 emergency expense without selling something or borrowing money. This statistic underscores a widespread vulnerability that can lead to financial strain due to inadequate savings for unforeseen costs.

[1]Source: Webster Bank survey

MISALIGNED INVESTMENTS

Ever felt the sting of an investment gone wrong? It's a common frustration that can undermine your financial confidence and aspirations. Yet, this challenge serves as a powerful catalyst for growth. By refining your investment strategy to better match your goals, you can turn past frustrations into future success, ensuring your investments align with your aspirations.

Many investors approach investing by looking at what has returned the most historically, what is working for others, or even what the latest tip is at the water cooler. This typically leads to making inappropriate investment choices. Approached properly, investments should be goal-based – such as retirement, buying a home, or college planning, and should take into consideration the investor's risk tolerance – how much risk is the investor willing to accept, investment knowledge – does the investor truly understand the investment they're making, and time horizon – when will the investor need to spend the money they are looking at investing, to name a few. Lack of clarity in these areas will result in appropriate investments that may not yield the desired result.options like credit cards.

> **"Peter Lynch, one of the most successful stock market investors, famously said, 'Know what you own, and know why you own it.' Understanding one's investments and the rationale behind them could help reduce the risks associated with investing in markets or products that are not well understood by the investor."**

To avoid the pitfalls of misaligned investments, individuals should start by defining their investment goals clearly, considering factors such as time horizon, risk tolerance, and financial objectives. Education plays a crucial role; taking the time to learn about different types of investments and how they fit into an overall financial strategy can be immensely beneficial. It's also wise to consult with a financial advisor who can provide personalized advice based on an individual's unique financial situation. Utilizing tools like robo-advisors for portfolio management or opting for diversified investment vehicles such as mutual funds or ETFs can also help mitigate the risk of misaligned investments by spreading out exposure across various assets.

AVOIDING MISSTEPS

A study by the National Financial Educators Council revealed that lack of investment knowledge costs Americans an average of $1,230 per year. This loss is often due to making investment decisions without a clear understanding of the investment vehicle or its market, leading to misaligned choices that do not align with the investor's risk tolerance.

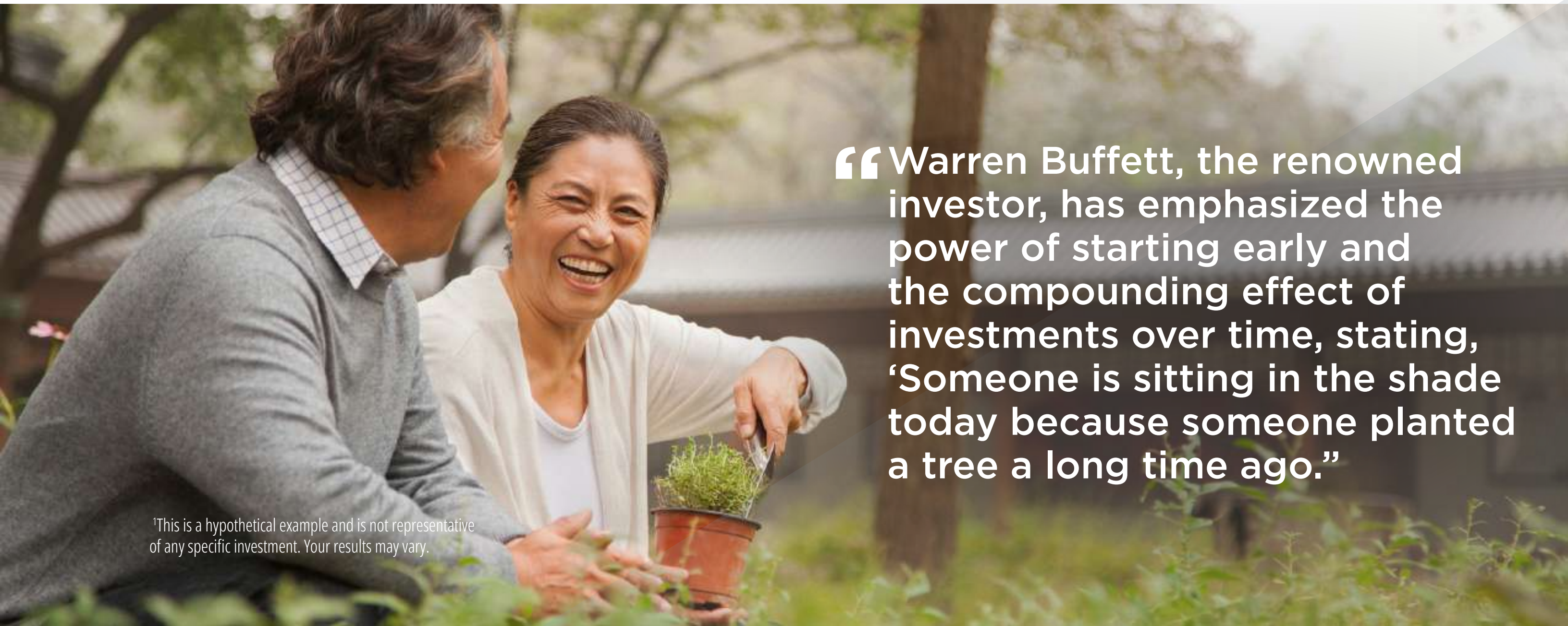
PROCRASTINATION

Procrastination in saving and investing can often stem from a mix of fear and overwhelm, clouding our aspirations for a secure future. Recognizing this as a common hurdle empowers you to take the first step today, transforming procrastination into proactive planning for a brighter, wealthier tomorrow.

Time can be a wealth eroder or a wealth builder. The negative effects of starting to save later for a particular goal can be quite significant. Conversely, starting early can produce markedly better results. Take the example of a person wishing to retire at 65 and starts saving at age 35 until age 65. He contributes $10,000 each year and receives a 7% annual return on his investment. At retirement, he will have just over $944,000. Had he started 10 years earlier at age 25 and stopped after just 10 years, he would have accumulated over one million dollars at retirement.[1]

To combat procrastination, especially in the context of financial planning and investment, setting clear, achievable goals is key. Begin with setting short-term objectives that are easy to accomplish and contribute to your long-term financial goals. Utilizing technology can also play a crucial role; many apps and financial tools are designed to automate savings and investments, making it easier to stay consistent without having to make daily decisions. Additionally, educating oneself about the basics of personal finance and investment can demystify the process and reduce the inertia of getting started. Finally, consider seeking guidance from a financial advisor to create a tailored plan that aligns with your financial goals, timeline, and risk tolerance. This professional insight can provide the necessary motivation and accountability to take action.

The cost of procrastination can be high, but it's never too late to start taking action. Every step towards saving and investing today is a step towards a wealthier tomorrow. Trilogy financial advisors are here to help you create a plan that not only catches you up but propels you forward.



"Warren Buffett, the renowned investor, has emphasized the power of starting early and the compounding effect of investments over time, stating, 'Someone is sitting in the shade today because someone planted a tree a long time ago."

[1]This is a hypothetical example and is not representative of any specific investment. Your results may vary.

LACK OF PLANNING

Feeling lost in the sea of financial options without a clear plan can be daunting and frustrating, dampening your aspirations for financial independence. The good news? Embarking on a journey of financial planning can illuminate the path to achieving your dreams, transforming uncertainty into a roadmap for success.

We said earlier that investing should be goal based. Most families are pursuing multiple goals, all of which need to be funded from the same income. In other words, how do we allocate that investment dollar so that we have the best chance of meeting all our goals? It is not a simple question. The answer is a well-thought-out plan that identifies all goals and all factors contributing to, or affecting those goals. Lack of a plan can contribute to less effective investments and misuse of available funds.

AVOIDING MISSTEPS

A study by Charles Schwab in 2020 revealed that individuals with a written financial plan were 32% more likely to feel financially stable than those without one.

> **“Peter Drucker, a renowned management consultant, famously said, ‘Plans are only good intentions unless they immediately degenerate into hard work.’ Its critically important to not only set financial goals but also actively work towards them with a clear plan in place.”**

To combat the wealth eroder of a lack of planning, it’s crucial to start with a comprehensive financial plan. This plan should include detailed goals (both short-term and long-term), strategies for achieving them, and regular checkpoints for review and adjustment. Begin by assessing your current financial situation, including income, expenses, debt, and savings. Then, set realistic and specific goals, such as saving for a down payment on a house, paying off credit card debt, or investing for retirement. Allocate resources towards these goals based on their priority and your timeline.

A comprehensive financial plan is the cornerstone of successful wealth management. Without it, achieving financial independence can seem like a distant dream. Trilogy’s Financial advisors specialize in creating personalized plans that bring clarity to your financial journey and set actionable steps towards your goals.

LACK OF PROPER PROTECTION

The thought of life's unforeseen challenges affecting your financial security can be deeply unsettling. This fear taps into our fundamental desire for protection and care for our loved ones. However, understanding and implementing proper financial protection strategies can turn these fears into ncreased confidence, ensuring that your and your family's aspirations are safeguarded against life's uncertainties.

It's important to note that life sometimes throws us curve balls and we need to be prepared. Such factors as a premature death, a disability, or an extended need for Long Term Care can wreak havoc on a well thought-out plan. For instance, how will the mortgage be paid if an income earning spouse passes away too soon or incurs a debilitating disability? Or, what happens to the surviving spouse if the deceased spouse used up all the retirement savings due to an extended Long Term Care stay? Did you know that the average cost of Long Term Care can range from $35,000 to $108,000 per year depending on location and degree of care?[1]

Just as critical is having the proper documentation set up so that the individual's financial direction is followed when the individual is no longer able to make their own decisions, such as in the case of a debilitating illness or dementia. A Financial Power of Attorney can fill this need. To address the lack of proper protection, individuals should conduct a comprehensive risk assessment to identify potential financial vulnerabilities. Key steps include obtaining adequate life insurance to provide for dependents in case of untimely death, considering disability insurance to protect income in the event of an inability to work, and planning for long-term care needs to ensure that late-life care does not deplete retirement savings. It's also prudent to have a legally binding will and other estate planning documents, like a durable power of attorney and healthcare proxy, to ensure personal wishes are carried out and to provide clear guidance to loved ones.

Consulting with a financial planner or insurance professional can help determine the appropriate level and type of coverage for your unique situation.

Financial protection is not just about safeguarding your assets—it's about ensuring the well-being of you and your loved ones, no matter what. Meet with a Trilogy advisor to explore insurance and estate planning solutions that offer comprehensive protection for your financial future.

[1] Source: retireguide.com

WE DON'T JUST INVEST, WE COACH.

Every day, with every piece of advice, we empower our clients to live wealthy.

FINANCIAL COACHING

Receive one-on-one counseling from our certified Advisors to keep you on track and set you up for financial success.

PERSONALIZED PLANS

We compose data-driven customized plans to help you realize your specific goals and to put you on a path to financial independence.

CLIENT PORTAL

We give you access to your own portal where you can upload and store information, documents and see all your financial accounts in one convenient, secure platform.

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