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Welcome to Transition Insights!

Happy New Year!

As you're making this year's resolutions, try setting some goals that focus on your finances. Here are three personal finance strategies you can implement immediately to get your new year started on solid footing:

1. **Get Organized.** Leave last year's habits with last year's bills, and start the new year by organizing your finances. Set up a folder system so you have one place to store your bills and receipts. Keep any tax-related records and receipts in one place, too, so you're not scrambling to find paperwork at tax time.

2. **Reign in Your Holiday Bills.** It's common to suffer from post-holiday blues once the credit card bills start arriving in the new year. Instead of procrastinating, make a financial resolution to tackle them head on. Open those bills immediately and start paying them right away.

3. **Save More.** Whatever you may be putting aside already, consider paying your future self a little bit more by increasing your weekly or monthly savings by at least a percentage or two, starting this month.

We are here to help in any way we can!
Sincerely,
All of us at The Wealth Transition Collective

ARTICLES

Active Vs. Passive Investing

Investors and advisors alike have long debated the merits of active versus passive investing. As the markets have taken a downward turn over the last year in response to rising interest rates, this age-old question has emerged again.

Passive investing seeks to generate average market returns and involves hanging on to investments over a long period of time in order to ride out the market's ups and downs. Active investing seeks to outperform the market — a trait that many investors are finding more desirable as markets have turned down — and involves more frequent buying and selling.

The two approaches offer different advantages and potential drawbacks to consider.

What is Active Investing?

Active investors take a hands-on approach to buying and selling to try to outperform a particular benchmark, like the S&P 500 Index. They follow companies closely and trade assets to capitalize on short-term price fluctuations.

You can do your own active investing, but because this approach requires a high level of market analysis and expertise, it isn't recommended for novice investors.

Instead, investors may choose to purchase actively managed funds. Fund managers have experience with frequent trading and time to devote to research. They have access to a wide range of investment data as well as a knowledge of broader market and economic trends. With this information close at hand, they closely monitor the market and determine the best time to buy and sell stocks based on their research and expertise to maximize return.

Investors may also choose to work directly with a portfolio manager or financial advisor who can help manage their portfolio or even build a custom index through direct indexing. Instead of owning shares of a fund, direct indexing strategies allow investors to own the companies that comprise an index directly, providing greater flexibility in how they are bought, sold, and managed for tax efficiency.

A high touch from fund managers and other financial professionals usually means that active investing and management strategies are associated with higher fees than passive investing strategies, which can eat into overall returns.

What is Passive Investing?

Passive investing requires a long-term mindset. This strategy focuses on buying assets regardless of the market's daily fluctuations and holding them for a longer period. By holding stocks for the long haul and avoiding reacting to ups and downs in the market, you hope to benefit from an overall increase in market prices over time.

Passive investing typically involves buying shares of an exchange-traded fund (ETF) or index fund designed to replicate a market index while minimizing buying and selling. This type of hands-off approach doesn't require the kind of daily attention and meticulous research active investing does, and as a result, also tends to come with lower costs, potentially allowing investors to hang on to more of their returns.

Which is the Best Approach?

There are pros and cons to active and passive investing, and the right approach for you depends on many different factors, including your goals, time horizon, and risk tolerance.

If you are willing to pay a bit more for the chance of outperforming the market, an active approach might be a good fit for you. On the other hand, passive investing might be a better fit for long-term goals, such as retirement.

Keep in mind that your investment approach doesn't have to be all or nothing. You may prefer to hold both active and passive investments in your portfolio. An advisor can help you choose the right mix of active and passive investments to keep your short-term and long-term goals on track.

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Finding the Ideal Place to Live in Retirement

Planning for retirement is rife with big questions — not just *how* you want to spend your golden years, but *where*? For some, retirement offers the opportunity to spend more time with family; for others, it's the chance to venture into a different climate.

For the most part, seniors are planning to spend their retirement near the homes they've always known. A 2021 study by the AARP showed that approximately 75% of people over 50 plan to stay in their current communities for as long as possible. It's a prudent choice given that half have paid off their mortgages, but even so, about a third of respondents recognized that they might need to make physical changes to their homes to accommodate changing health and mobility needs as they age.

Whether you're planning to stay put or change locales, where you choose to live after retirement can have a big impact on both your finances and your quality of life. Here's a look at some important considerations.

Should I Downsize?

The nest may feel empty once the kids have moved out. Even if you're inclined to stay close to your community, downsizing and moving to a smaller home that can increase accessibility and comfort while reducing upkeep and expenses may be an attractive option, especially if the new place is close to family, friends, and recreation.

Many cities offer retirement communities providing amenities, services, and opportunities to socialize with new friends, build community and increase your quality of life. Especially for retirees who may be aging alone, such communities can help reduce isolation and expand your circle of friends.

What About Expenses?

After retirement, advisors suggest that you'll spend between 55% and 80% of your current income each year, so if you are considering a move, the overall cost of living should be a key factor in your consideration. Take a look at the local economy of the place you want to go to determine if it is within your budget to buy or rent property and if the overall cost of living is sustainable. Generally speaking, advisors suggest that housing costs should comprise no more than 30% of income for people of any age.

You'll want to consider the tax impact of a move as well. A few states, including Illinois and Hawaii, do not tax retirement income, and seven states, including Florida and Texas, have no income tax at all. A low-income tax rate does not necessarily mean a low cost of living, however. Alaska, for example, may have a low tax burden but is also one of the least affordable states to live in.

If you're feeling adventurous, you may also consider retiring to a different country, perhaps one with a lower cost of living or a more attractive climate. For example, a retired couple in Mexico could expect to spend about $2,500 a month, including the cost of private health insurance.

What about Healthcare?

Healthcare costs can skyrocket as we age, and that can make planning tricky. Even if you're in relatively good health when making the plan for where you'll live in retirement, you'll want to factor in access to hospitals and healthcare providers that can serve your needs, as well as expenses for medications and healthcare services that may not be covered by private insurance or Medicare.

Factoring in Quality of Life

At the end of the day, one of the key goals of retirement is an enjoyable quality of life.

List your goals to determine what amenities different locations provide. If your goals include soaking up the culture, a vibrant, urbane arts community might suit you; outdoors types might opt for a community with access to golf courses and walking trails. And, of course, the ability to easily get together with friends and family is a critically important factor in overall happiness.

Whether you want to spend your retirement spoiling your grandchildren, traveling to the places on your bucket list, or a little bit of both, you'll want to consider what makes you happy when deciding where to live in retirement.

With all these factors in mind, consult your financial advisor who can help you survey your options and model scenarios based on taxes and cost of living. That way you can make an informed decision about the financial impact of a potential move and adjust your plans as necessary.

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