

You'll Be Glad You Got Your Tax Records in Order Early!

New Year's Financial Resolutions

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For most of us it won't be difficult to bid 2020 adieu and welcome in a new year and a fresh start. While a simple return to normalcy would be a gift, many effects of the pandemic will be with us for some time to come. In light of these changes, we think it's a good idea to revisit the idea of making New Year's resolutions with respect to your financial life.

The resolutions we have listed below may be easier to keep than those "exercise more" or "lose weight" resolutions that often go by the wayside in a short period of time. In contrast to this past year when we've been affected by events out of our control, there can be a real comfort in doing something that is within reach.

The ideal starting point for getting organized is reviewing the year-end financial statements you receive in January. You have to put most of these documents together anyway to prepare your tax return. Here are a few ideas we have for the new year.

Resolution No. 1: Organize Your Year-End Statements

By the end of January, you should have received the year-end financial statements for your mortgages, investments, bank accounts and retirement assets. Start by reviewing these statements to make sure you have them all. If you're missing any, now is a good time to call or write to obtain these statements long before the April 15 tax return deadline.

If you still receive paper statements for your account, then we suggest separating them out into separate folders labeled "Charitable Contributions," "1099s," "IRA Statements," etc. Alternatively you could use a three-ring binder with labeled dividers.

For those who have gone paperless, however, this can be accomplished with greater ease on your computer. Create a "2019 Taxes" folder (separate subfolders if you like) and download PDFs of your statements to this folder. When downloading the statements, make sure to save them with a name that clearly indicates the nature of the document. Downloaded statements often come with a generic name, and saving it as "Roth IRA December 2020" will make it easier to find later. Your accountant may have a portal that allows you to upload your documents directly to him and labeling them clearly will save you both time.

You might also store these documents on a cloud storage drive with Google Drive, Dropbox, Box, iCloud or another service. As with anything stored online, be aware that there is the potential for the information to be compromised. Add a password to any PDFs that have sensi-

tive information on them, like account numbers, Social Security numbers, etc.

Resolution No. 2: Make an Appointment to See Your Accountant Soon

After you've organized your year-end statements, make an appointment to meet with your accountant. The sooner in the new year you can see your accountant, the better, and this year that is particularly true.

The pandemic brought a number of changes to our tax situations, with many seeing a change in income, not to mention pandemic-related loans, emergency tax relief, new IRA distribution rules and more government stimulus programs. As a result, accountants will have a lot to wade through this year that will be different from previous years. Even if your situation has been relatively stable, it will have changed for many other clients, so get on the calendar now.

Unless your return is very simple, we recommend using an accountant. While the 2017 Tax Cuts and Jobs Act did simplify returns for some filers, when it comes to tax laws the only constant has been change.

Resolution No. 3: Prepare a Year-End Financial Statement

Now that you've organized your year-end financial statements, you should put together your own year-end financial statement. The standard way to do this has always been on a spreadsheet. Here again, many now use online software, either through a budgeting or personal finance app or through the portal provided by their financial adviser.

Divide your assets into personal and retirement assets and list them by type of asset. The three broad asset categories would be "Cash," "Investments" and "Fixed Assets." Cash would include those accounts that are liquid or will be liquid within a year. These would include checking accounts, savings accounts, money markets, certificates of deposit, etc. Investments is self-explanatory. Fixed assets include property that isn't held for investment purposes, such as your home, cars and personal effects.

If you own any of your assets jointly with another person or if you have a trust, you should indicate ownership of each asset.

Next, you should list your current liabilities such as the amount owed on your mortgage, car loans and credit-card debt. Your net worth is determined by subtracting your liabilities from your assets. This number helps you see where you are now, but it's even more helpful if you



keep a record each year so that you can see the progress you hopefully have made.

Resolution No. 4: Review Your Asset Allocation With Your Financial Adviser

Now that you've listed broad categories of your assets on your financial statement, we recommend you focus on the investment portion. Determine the percentage of your investments you have in cash, fixed income, U.S. stocks, international stocks and any other investments.

If you are do-it-yourself investors, you should then divide the U.S. stock category further into large-cap, mid-cap and small-cap stocks, and your international stocks between companies based in established and emerging countries. Alternatively, you can ask your adviser to provide this breakdown for you.

The purpose of reviewing your asset allocation is to make sure that a particular asset category hasn't gotten too large or small during the year. In 2020, we saw assets grow at significantly different rates, with large growth-oriented tech companies posting large gains, while established blue chips in the energy or travel industries declined. As a result, your allocation may look noticeably different than it did last January. Make an appointment to see your financial adviser to determine whether you should make any changes to better achieve your investment goals in the coming year.

Resolution No. 5: Check On Your Emergency Fund and Savings Rate

The events of 2020 brought home the importance of having a cash reserve set aside for emergencies. In the past we have recommended you set aside three to six months' worth of living expenses in cash. But given recent events no one could have anticipated, depending on your circumstances it might be preferable to raise your reserve to one year's worth of expenses.

We realize this may be easier said

than done, so make a resolution to set aside a portion of each paycheck in 2021 to build your fund to a level that you think is appropriate.

If your emergency reserve is funded, take a look at the overall amount you're saving, in particular your retirement plan contributions. If you are contributing less than the maximum, increase the amount you are setting aside each pay period. Even a small increase will have a positive long-term effect and will help build the habit of regularly increasing contributions each January.

Resolution No. 6: Keep Track of Your Expenses During the Year

When it comes to expenses, we find that clients fall into one of two categories. They either know where every dollar goes or they have no idea how they spend their money. If you really want to be in control of your financial life, you should know how you spend your income. The new year is a great time to start keeping track.

There are several ways to go about this. If you prefer a manual approach, you can get a big picture view by tallying the contributions, including paychecks, and withdrawals to your checking, savings and investment accounts. This will give you a broad overview of how much of your take-home pay you're saving or spending. For a more detailed view of your spending, technology is our friend. First, most credit cards provide an annual spending summary online. Login and download that report online and you will get a good idea of not just what you spent but how you spent it.

If you want greater accuracy and the ability to run reports and analyze the data, you can import your transactions to a budget program or app, such as Quicken, Mint, PocketGuard, or others. These programs will track and categorize your expenses for you and allow you to analyze the data at year-end. Here again, consider how you feel about storing information online.

One key caveat when going through your expenses last year — 2020 was not a typical year. For many, spending habits changed drastically. Instead, look at how you spent your money in January and February 2020 and see how they differed from the remainder of the year. It is likely that they will provide a more accurate picture of your typical spending pattern.

Take Control

So much that changed over the past year has been outside our control. This experience demonstrates why it's important to be proactive and take control of what we can. There's no better time than now to get your financial life in order and put yourself in the best position to survive and thrive in the future. Best wishes for a happy, healthy and prosperous new year! **B**



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