Nagel on Finances: Knowing your investments

BY ROGER NAGEL
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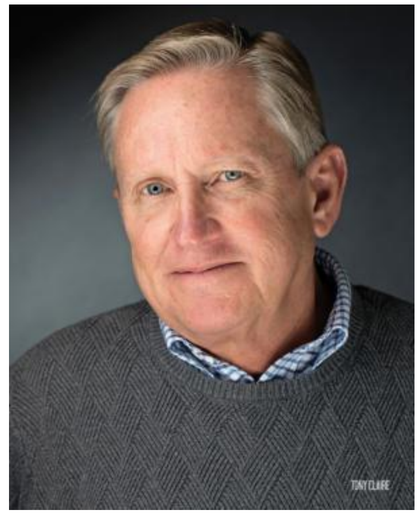
Roger Nagel

RIO RANCHO, N.M. — By now, most of us have collected substantial “economic impact payments” over the past 12-14 months.

Many families of four might have qualified for and received as much as $11,400 in direct payments from the U.S. government. Wow.

For those whose income surpassed a certain level, you may have had to wait until your tax returns were filed to determine what your benefit was and how much it might have been reduced. Nonetheless, unless your income exceeds the maximum allowable, most of us, sooner or later, will get some form of direct payment.

I have been intrigued this tax season by how many people, especially younger households, have asked these two questions: What do you recommend I do with my stimulus checks? And, what are the long-term consequences of these direct-payment programs?

From what I have read so far, I am convinced even the best of America’s economists have no honest idea of the long-term consequences of these direct-payment programs. But, be assured, there will be consequences.

So, what should you do with that newfound wealth?

Assuming you were fortunate enough to retain your job throughout the pandemic, here are a few thoughts, even if Ramsey-esque.

• Pay-off all credit cards, consumer loans and car loans.

• Build a cash reserve that is easily accessible for emergencies. Accumulate up to 12 months of minimum monthly household expenses.

• Use this account only for unexpected costs that cannot be avoided, such as major appliances, car repairs or other essential aspects of daily life. Use these funds to avoid credit card or consumer debt.

• Do not buy non-essential items like TVs, stereos or other “wasting” assets if you do not have sufficient reserves and are not already free from credit card and consumer loans.

• Invest in “managed money,” like mutual funds. Most younger households can be intimidated by this notion if they have not yet begun to save money beyond their cash reserves. Yet, many of us are investors and we do not even think about the investing process.

That’s because employers who sponsor retirement plans make the investing process nearly invisible. This is the most important resource for you to learn about investing since it is already occurring and is immediately accessible to learn from.

If you are not participating in such a plan, think in terms Roth or traditional IRAs. Just remember, rules vary on tax aspects, so read up or get advice on your specific circumstances.

In my January article, I listed fads to avoid. To that list I would add annuities and publicly traded partnerships.

Invest in a well-balanced portfolio of mutual funds for “the long haul.” Our firm uses a risk tolerance survey to help us advise on how to balance such investments to limit exposure to stock market volatility.

Generally, even though they will rise and fall with the stock market, these portfolios perform well with little time required to monitor them.

Better to spend that time with the kids at the park.

(Roger Nagel, CPA/PFS, CMA, CGMA, is the managing director of Nagel CPAs, LLC – Accountants and Advisors, serving the middle Rio Grande Valley and beyond. Learn more at nagelcpa.us.)