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It's official.... Bodnar Financial has hired its first Millennial.

After 5 years in Washington, DC, my daughter Jackie has joined the Bodnar Financial Team.

To commemorate the milestone, we decided to use this quarter's newsletter picture to pay homage to her generation's signature social phenomenon: The Selfie.

(We don't always understand the bizarre things our children and grandchildren come up with, but we love them anyway....more on this in the article titled, *"Millennials vs. Boomers: How Wide Is the Gap?"*)

Summer has come and gone, but before you get back into the grind, use the financial stress management tips in this newsletter as a guide to keep that "summer vacation" feeling of happiness and relaxation all year-round.

And if you haven't saved the date for the Morristown Festival of Books, there's still time! The festivities begin October 2-3, 2015. Like last year, Bodnar Financial will be sponsoring an author breakfast the morning of the festival on Saturday.

More details to come as we get closer to the event, but in the meantime, write that date down in your calendar- or as our new Office Millennial would say, "set a reminder in your iPhone…"

Autumn 2015

BODNAR FINANCIAL ADVISORS INC
Client Quarterly Newsletter

It's Complicated: Money and Happiness

Does more wealth lead to more happiness? Researchers have tackled this question for decades, and although the results have differed, one fact is certain: The relationship between money and happiness--or "well-being," as many researchers put it--is complicated.

Think before you spend

In their book, *Happy Money: The Science of Smarter Spending,* Professors Elizabeth Dunn and Michael Norton summarize their own and others' research. What they found is that it's not necessarily how much you make that matters to overall happiness (although that certainly contributes), but what you do with your money. They boiled down the findings to five "key principles of happy money."

1. Buy Experiences. Investing in memories can result in a more sustained level of happiness than buying a bigger house, a more luxurious car, or other material goods. Buying the latest technological gadget might elicit the kind of joy a child experiences opening a new toy on the holidays, but just like that new toy, the gadget loses its novelty with time--a principle psychologists refer to as "hedonic adaptation." On the other hand, experiences--even those that are fleeting or may initially provoke trepidation, such as hang gliding--create memories that help foster prolonged contentment.

2. Make It a Treat. While you're investing in those experiences, be sure to spread them out so they don't become expectations or habits. In this way, the novelty of each new experience will be fully realized. As the book says, "Abundance is the enemy of appreciation." This is also true with something as simple as a cappuccino. If you make it a daily ritual, it becomes a habit. If you instead substitute your daily coffee once a week with a froth-covered treat, then it becomes a reward to savor.

3. Buy Time. According to Dunn and Norton, individuals should ask themselves the question, "How will this purchase change the way I use my time?" For example, will it allow you to spend more time with your friends or family, or create more "to-dos" to clog your list? Will it free you up to participate in more activities you enjoy? Investing in products or services that allow you to spend time on the things you love will lead to greater overall well-being. And, say the authors, don't fall into the trap of putting a dollar value on your time, as this leads to increased stress levels. "Simply feeling like your time is valuable can make it seem scarce."

4. Pay Now, Consume Later. Paying for a treat or experience up front, such as event tickets you buy months in advance, allows you to benefit from the extended pleasure of eager anticipation. With all due respect to Tom Petty, the waiting, it seems, may be the best part. Conversely, credit cards can be a dangerous, albeit convenient, financial tool, facilitating a "consume now, pay later" dynamic. One study cited in *Happy Money* found that all 30 people surveyed underestimated their monthly credit-card bills by a sizable average of nearly 30%.

5. Invest in Others. Regardless of your circumstances--wealthy or not, young or old--research finds that spending money on others leads to greater happiness than spending on oneself.

The danger zones

While some experts differ on whether higher incomes result in greater levels of happiness, they tend to agree on the following: Increasing debt levels are detrimental to happiness, and keeping up with the Joneses can lead to a general sense of dissatisfaction. Instead, actively managing debt while finding ways to appreciate what you already have on a day-to-day basis may help you make well-thought-out saving and spending choices that support your overall level of well-being.

See disclaimer on final page

Five Steps to Tame Financial Stress

Seventy-two percent of adults report feeling stressed about money at least some of the time, and 22% say that the amount of stress they experience is extreme.

Source: American Psychological Association

Do you sometimes lie awake at night thinking about bills that need to be paid? Does it feel as though you're drowning in debt? If this describes you, you might take solace in the fact that you're not alone. A recent report released by the American Psychological Association (APA) showed that 72% of adults feel stressed about money at least some of the time, and 22% said the amount of stress they experienced was extreme.[1]

The bad news is that stress can be responsible for multiple health problems, including fatigue, headaches, and depression. And, over time, stress can contribute to more significant health issues, including high blood pressure and heart disease.[2] The good news is that there are some simple steps you can take to reduce or eliminate some of the financial stress in your life.

1. Stop and assess

The first step in reducing financial stress is to look at your situation objectively, creating a snapshot of your current financial condition. Sit down and list all of your financial obligations. Start with the items that are causing you the most stress. For debts, include the principal due, the applicable interest rate, and the minimum payment amount. If you're not already doing so, review your bank account and credit-card statements to track where your money is going. The goal here is not to solve the problem; it's to determine and document the scope of the problem. You might find that this step alone significantly helps alleviate your stress level (think of it as facing your fears).

2. Talk to your spouse

If you're married, talk to your spouse. It's important to communicate with your spouse for several reasons. First, you and your spouse need to be on the same financial page; any steps you take to improve your situation are going to be most effective if pursued jointly. Second, not being on the same page as your spouse is only going to lead to additional stress. In fact, the APA report showed that 31% of spouses and partners say that money is a major source of conflict or tension in their relationship.[3] Additionally, your spouse or partner can be a valuable source of emotional support, and this emotional support alone can lower stress levels.[4] If you're not married, family or friends might fill this role.

3. Take control

First, go back and take a look at where your money is going. Are there changes you can make that will free up funds you can save or apply elsewhere? Even small changes can make a difference. And exerting control over your situation to any degree can help reduce your overall stress level. Start building a cash reserve, or emergency fund, by saving a little bit each paycheck. Think of the emergency fund as a safety net; just knowing it's there will help reduce your ongoing level of stress. Work up to a full spending plan (yes, that's another way of saying a budget) where you prioritize your expenses, set spending goals, and then stick to them going forward.

4. Think longer term

Look for ways to reduce debt long term. You might pay more toward balances that have the highest interest rates. Or you might consider refinancing or consolidation options as well. Beyond that, though, you really want to start thinking about your long-term financial goals, identifying and prioritizing your goals, calculating how much you might need to fund those goals, and implementing a plan that accounts for those goals. Having a plan in place can help you with your stress levels, both now and in the future.

5. Get help

Always remember that you don't need to handle this alone. If the emotional support of a spouse, friends, or family isn't enough, or the level of stress that you're feeling is just too much, know that there is help available. Consider talking to your primary-care physician, a mental health professional, or an employee assistance resource, for example.

A financial professional can also be a valuable resource in helping you work through some of the steps discussed here, and can help direct you to other sources of assistance, like credit or debt counseling services, depending on your needs.

The most important thing to keep in mind is that you have the ability to control the amount of financial stress in your life.

[1,3,4] American Psychological Association, "Stress in America™: Paying with Our Health," www.stressinamerica.org, February 4, 2015

[2] Mayo Clinic Staff, "Stress Symptoms: Effects on Your Body and Behavior," www.mayoclinic.org, July 19, 2013

Millennials vs. Boomers: How Wide Is the Gap?

Can you tell the difference between the attitudes of baby boomers and millennials when it comes to finances? Take this quiz and see.

Texting versus email (or even snail mail). Angry Birds versus Monopoly. "The Theory of Everything" versus "The Sound of Music." "Dancing with the Stars" versus "American Bandstand."

It's no secret that there are a lot of differences between baby boomers, born between 1946-1964, and millennials, who were generally born after 1980 (though there is disagreement over the precise time frame for millennials). But when it comes to finances, there may not be as much difference in some areas as you might expect. See if you can guess which generation is more likely to have made the following statements.

Boomer or millennial?

1) I have enough money to lead the life I want, or believe I will in the future.

2) My high school degree has increased my potential earning power.

3) I rely on my checking account to pay for my day-to-day purchases.

4) I consider myself a conservative investor.

5) Generally speaking, most people can be trusted.

6) I'm worried that I won't be able to pay off the debts that I owe.

The answers

1) Millennials. According to a 2014 survey by the Pew Research Center, millennials were more optimistic about their finances than any other generational cohort, including baby boomers. Roughly 85% of millennials said they either currently had enough to meet their financial needs or expected to be able to live the lives they want in the future; that's substantially higher than the 60% of boomers who said the same thing. Although a higher percentage of boomers--45%--said they currently have enough to meet their needs, only 32% of millennials felt they had enough money right now, though another 53% were hopeful about their financial futures. Source: "Millennials in Adulthood," Pew Research Center, 2014

2) Boomers. The ability of a high school education to provide an income has dropped since the boomers' last senior prom, while a college education has never been more valuable. In 1979, the typical high school graduate's earnings were 77% of a college graduate's; in 2013, millennials with a high school diploma earned only 62% of what a college graduate did. And 22% of millennials with only a high school degree were living in poverty in 2013; back in 1979, the figure for boomers at that age was 7%. Source: "The Rising Cost of Not Going to College," Pew Research Center, 2014

3) Boomers. Not surprisingly, millennials are far more likely than boomers to use alternative payment methods for day-to-day expenses. A study by the FINRA Investor Education Foundation found that millennials are almost twice as likely as boomers to use prepaid debit cards (31% compared to 16% of boomers). They're also more than six times as likely to use mobile payment methods such as Apple Pay or Google Wallet; 13% of millennials reported using mobile methods, while only 2% of boomers had done so. Source: "The Financial Capability of Young Adults--A Generational View," *FINRA Foundation Financial Capability Insights,* FINRA Investor Education Foundation, 2014

4) Millennials. You might think that with thousands of baby boomers retiring every day, the boomers might be the cautious ones. But in one survey of U.S. investors, only 31% of boomers identified themselves as conservative investors. By contrast, 43% of millennials described themselves as conservative when it came to investing. The survey also found that millennials outscored boomers on whether they wanted to leave money to their children (40% vs. 25%) and in wanting to improve their understanding of investing (44% vs. 38%). Source: Accenture, "Generation D: An Emerging and Important Investor Segment," 2013

5) Boomers. Millennials may have been around the track fewer times than boomers have, but their experiences seem to have given them a more jaundiced view of human nature. In the Pew Research "Millennials in Adulthood" survey, only 19% of millennials said most people can be trusted; with boomers, that percentage was 31%. However, millennials were slightly more upbeat about the future of the country; 49% of millennials said the country's best years lie ahead, while only 44% of boomers agreed.

6) Millennials. However, the difference between the generations might not be as significant as you might think. In the FINRA Foundation financial capability study, 55% of millennials with student loans said they were concerned about being able to pay off their debt. That's not much higher than the 50% of boomers who were worried about debt repayment.

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Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.