Start the new year right with a financial checkup!

Call to schedule a free, no-obligation consultation!

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FINANCIAL VIEWPOINT

A MESSAGE FROM SHARONVIEW FINANCIAL SERVICES

The Basics of **Financial Fitness**

Becoming financially fit requires maintaining foundational elements, including a budget, emergency fund, strong credit score, and retirement savings.

There's a subjective uncertainty associated with financial wellness. Are you financially fit? And if so, how fit are you?

While there is no clearly defined threshold for answering affirmatively, much less grading your level of fitness, there are baseline elements associated with financial fitness. To make sure that you're on the right track, develop a financial plan that lays out clear goals and timelines. Below are steps to consider to get you started:

Budget Crunch

As a first step, make a reasonable and practical budget, assessing your income and expenses (by month, if possible), to understand your cash flow, identifying areas where you can trim costs. Revisit and revise your budget regularly to make sure it aligns with your personal circumstances.

Save for Unexpected Expenses

Expect unexpected expenses, such as a medical emergency, major car repair, and an appliance replacement, establishing an emergency fund that can pay for these costs. (Ideally, you want to keep three to six months' worth of living expenses in the fund.) Without such a backup source of payment, you may have to incur credit card debit, which can be unwise.

Stay Credit-Worthy

Check your credit report periodically, making sure that there are no errors, while using it as a tool to make sure that you're paying your bills on time and staying within your established credit limits. Such actions will help increase your credit score. NOTE: You are entitled to a free copy of your credit report annually from the three major credit reporting companies, Experian, Equifax, and TransUnion.

Establish Long-Term Financial Goals

Saving for your retirement is a personal decision that will help shape your lifestyle during your Golden Years. It's never too early (or late) to work with a financial professional to strengthen your retirement plan.

Review Your Plan

Establishing a financial plan is not a one-and-done proposition. Review your plan at least annually, revising it as necessary to align with your financial goals.

Increase Investments Potential Faster With Early Contributions

Investing early and often, such as a small recurring investment over a long period of time, has the potential to produce greater returns than investing a larger amount over a shorter period of time.

For instance, If you invest $75 a month beginning at age 25 and continue until you are 65, your earnings will be greater than the 35-year-old who invested $100 a month until reaching 65 (assuming an equal rate of interest for each).

(This is a hypothetical example and is not representative of any specific investment. Your results may vary.)

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Common Retirement **Investment Mistakes**

Use this tool to help keep your debt in check and improve financial wellness

Your debt-to-income ratio (or DTI) measures your monthly debt payment against your monthly income (before taxes or before other deductions have been made). To calculate your DTI, add your total monthly debt payments and divide them by your total pretax monthly income. For example, if you pay $200 a month toward your car loan and another $800 toward your mortgage, your monthly debt payments are $1,000. If your pretax monthly income is $4,000, your DTI is 25% ($1,000 divided by $4,000).

Guidelines vary widely, but in general, a DTI of 35% or less is preferred by lenders (closer to 20% is ideal), whereas a DTI over 45% is likely to be considered problematic. Lenders use your DTI ratio to measure your ability to manage debt — so having a low DTI is very important, especially when it comes to buying a home, car or other major asset. The following are some ways to lower your DTI ratio.

Pay Off Debt

Surprise! While it's easier said than done, reducing your debt can help you reduce your monthly payments, and therefore the percentage of your monthly income going toward debt. Aside from lowering your DTI, paying off your debt can also improve your credit score by reducing your credit utilization ratio, which is your total debt divided by your total available credit. A higher credit score could help improve your chances of qualifying for a mortgage or getting a favorable interest rate.

Increase Your Income

Increasing your income is another way to reduce your DTI. Not only will you have a higher gross income for the calculation, but you'll also have the opportunity to put more money toward your debt, which can further reduce your DTI. A few ways you might increase your income include working toward a work promotion, working overtime or picking up a second job or side gig.

Lower Your Monthly Payments

By reducing your monthly debt payments, you can reduce the percentage of your income being used for debt. There are several ways to lower your

monthly payments, including refinancing your loans or negotiating the interest rate on your debt. While negotiating your interest rate may be possible for credit cards, installment loans — like personal loans, auto loans or student loans — will likely require a refinance to adjust the rate.

Reduce Your Nonessential Spending

Look at where your money is going every month and cut back as much as you can. For example, are you paying for things like subscriptions that you no longer need? Freeing up that extra money in your monthly budget means you'll have more available to pay off debt. And the more quickly you can pay off debt, the more quickly you can reduce your DTI.

Increase Your Down Payment

When lenders calculate your DTI, they consider the impact of a mortgage loan on your finances and aim to keep your DTI with your mortgage under a certain level. You can reduce your DTI when you own a home by putting down a larger down payment, which will result in lower mortgage payments each month.

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