Mesirow

Finding your financial ally: How to make the most of your peak earning years

For most people, the years between age 40–60 are their peak earning years. It's when they have two huge wealth-building advantages working in their favor: Assets and time.

If you're at the stage of life where you're trying to accumulate and grow your wealth, how can you be sure you're making the most of these two advantages? By positioning your assets to grow efficiently in a holistic, tax-conscious portfolio. To do that, you have two powerful tools at your disposal:

1. Time-advantaged investing
2. Tax-advantaged investing

Making sure you are maximizing the potential of these investing strategies is critical. You only have one chance to get off on the right foot at the beginning of your wealth-building journey, so it's important to start well. Having the right strategy — and enlisting the help of a financial "ally" who can provide expert guidance — can make all the difference.

"Time-advantaged" investing

It's possible to gain more assets, but it's impossible to gain more time. That's why it's so important to start as early as you can when building wealth. Time gives you access to two potent strategies that make wealth-building easier:

- Compounding
- Dollar cost averaging

Compounding: The investor's greatest ally for asset growth

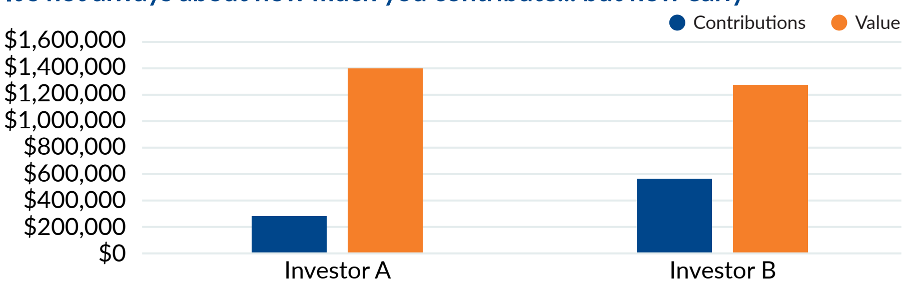
Compounding may be the most important element in determining an investor's ultimate success. To learn why, let's look at two investors who make different decisions about contributing to their 401(k):

- Investor A contributes $19,000 to his 401k for the next 15 years, and then stops contributing.
- Investor B decides she can't afford to contribute to her 401k right now and waits until she is 35 before contributing. She then contributes $19,000 for 30 years, twice as long as Investor A.

If we assume that each investor earns 5% interest per year, who will have more money at age 65?

If you guessed Investor A, you are correct. Even though Investor A contributed only half of the amount that Investor B did, Investor A ends up with $125,120 more than Investor B, thanks to having those 10 additional years of uninterrupted compounding.

It's not always about how much you contribute... but how early



That's just one way "time advantaged" investors can make use of compounding. You'll find more here.

Dollar cost averaging: Reducing your investing cost over time

Dollar cost averaging is a way that you can pursue the age-old investing saying of "buy low, sell high." The concept behind it is simple. If you invest the same amount in the market at regular intervals, you'll buy more shares when the price is lower and fewer shares when the price is higher. Thus, you reduce your average cost per share over time.

That's not the only advantage it offers, however. When the market is volatile, investors tend to panic and sell, often at the worst possible time. They lock in losses and miss sudden rallies. Plus, they may endanger their long term investment strategy. Dollar cost averaging helps reduce that temptation, because you know you're buying more shares when prices fall.

In addition, a dollar cost averaging strategy means you're only investing a little at a time. That means you can start with less, which means you can start earlier and give yourself more time to take advantage of the magic of compounding.

"Tax-advantaged" investing

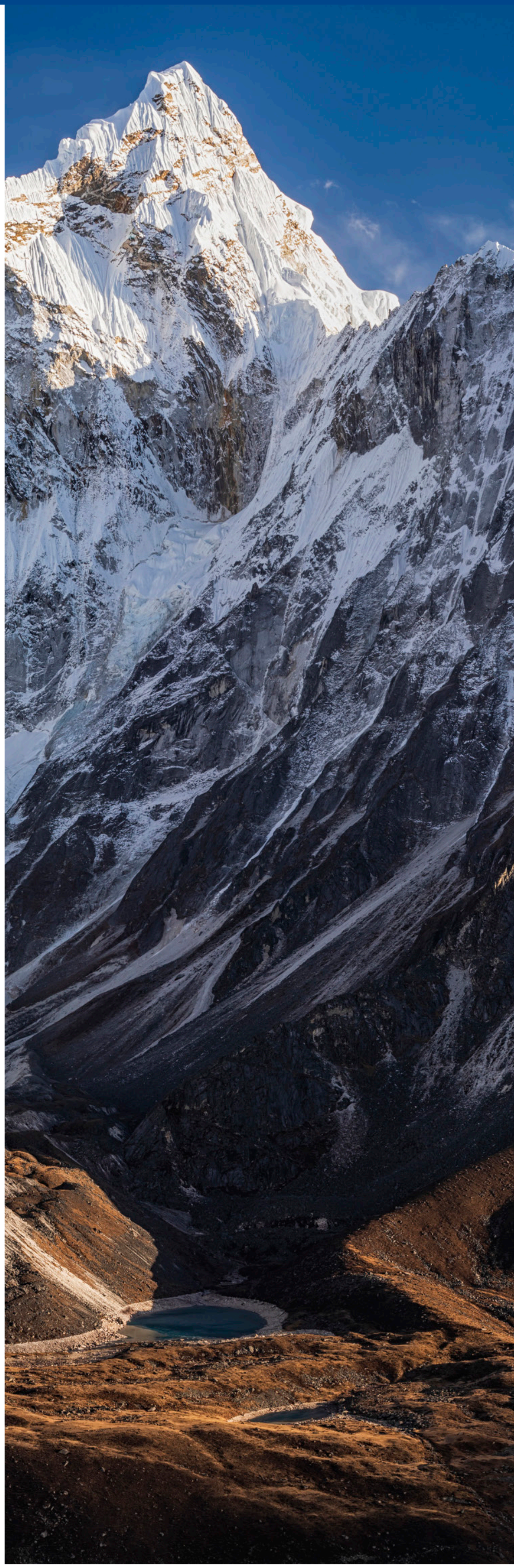
Tax-advantaged investment accounts are invaluable tools for managing your wealth. Perhaps the greatest advantage they offer is tax efficiency, because they reduce your taxable income now and allow assets to grow tax free until they are withdrawn (except in the case of Roth IRAs).

There are many different tax-reducing investing vehicles.
To keep this discussion simple, we'll focus on the most commonly used: 401(k)s, traditional IRAs and Roth IRAs:

- **401(k)s:** An employer-sponsored plan that makes it easy to deduct a set amount from your paycheck and invest it pre-tax. When you put money in the account, you receive a deduction in the taxes taken from your pay. Assets grow in value over time, tax deferred. When assets are withdrawn, they are taxed at your ordinary prevailing rate. Government employees may invest in a similar plan, a 403(b) which operates in the same manner as the 401(k.)
- **Traditional IRAs:** Similar to a 401(k) but set up by and contributed to by an individual rather than by a company. If you leave your place of employment, your 401(k) is often rolled over into a traditional IRA to preserve its tax-deferred status.
- **Roth IRAs** are a little different. You don't get a tax deduction in the year you contribute – you use after-tax money. Like IRAs and 401ks, assets grow tax-free while in the account. The big difference is that withdrawals are tax free.

While all of these vehicles have existed for decades, the rules that affect them are constantly changing. For example, the SECURE 2.0 Act of 2022 contained provisions that expanded coverage, impacted plan distributions and clarified administration rules.

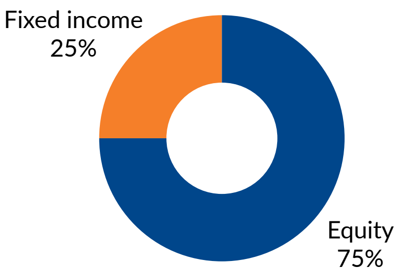
As you might expect, different tax management-focused investments offer distinct advantages and disadvantages according to your situation. For example, a Roth IRA can be the preferred choice for younger investors, because they may be paying taxes at a lower rate at the front end than they will when they're older and will make withdrawals. But if you're in a higher tax bracket now than you expect to be when you're older, a Roth may not be suitable.



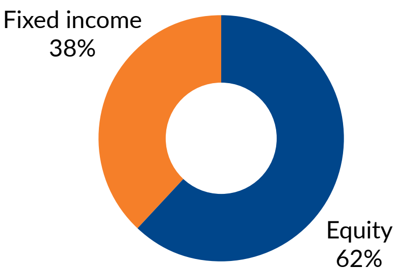
Asset classes aren't all taxed the same

In addition, asset classes are taxed differently. For example, corporate bond dividends are taxed at your federal income tax rate, while gains from stock sales are taxed at the capital gains tax rate, which is often lower. So, you might want to put your highly taxable investment in a tax deferred account.

IRA



Taxable investment account



Of course, investors don't invest purely based on tax efficiency. If you focus on taxes you'll pay in the future, you may lose sight of what you need to do right now. But it's a vital consideration. You can have the best-performing assets in your accounts, but if they aren't organized in the most tax-efficient way, that can cost you. That's another reason why working with a financial advisor can help make the burden of investing easier. They know all the different plans you may have access to – from 401(k)s to 403(b)s. It's their job to evaluate which investments make sense for your goals and risk tolerance. Your wealth advisor will also stay current on constantly changing regulations that can impact your long-term approach and adjust your holdings accordingly.

How an advisor can turn "overwhelming" into "really easy"

"Time advantaged" and "tax advantaged" investing strategies are important to an investor's ultimate ability to meet their financial goals. But they are not guarantees of success. You must make sure all your assets – present and future – are working together in a holistic portfolio that considers proper diversification, time horizons, estate planning issues, alternative investments, changing regulations and much more. For the best results, you need to be sure your assets work together in a tax advantageous way, and you need to adapt your asset mix as your situation changes.

For some, this challenge is inviting. But for most of us, investing involves an overwhelming number of investment vehicles, an overwhelming number of investing strategies, and an overwhelming array of intersecting tax and legal regulations, all of which must be reported in some way on your income taxes.

This multiplicity of decisions can make it harder for you to get started as soon as you should, and to make the most of the tools available to you. You have a life to live, after all. And most of us don't relish the thought of spending part of it researching state tax codes.

The right wealth advisor can give you a helping hand toward achieving your most important financial goals. He or she can help shape your financial picture, integrating the plan you've worked hard to put into place and even give you access to potentially higher returns. The net result can be more than enough to cover any advising fees, which is the reason many people resist working with an advisor. And remember, your time has value. You'll likely prefer spending it on things that matter to you, while your advisor wrestles with investment comparisons and relentless changes to the tax code.

Working with a professional also allows you to build a meaningful relationship over time. As your goals change and progress, an advisor can alter your plan accordingly, and even anticipate future needs as you confront different financial decisions throughout life.

Take some time to find the right advisor for you. Look for special certifications, like CFA and CFP, that tell you about their expertise.

Working with an advisor can be a great choice

They can help you with the following.

- Create a holistic plan that incorporates all your goals – from college funds and second residences to retirement objectives and legacy planning
- Stay the course during market slumps and avoid the mistakes that individual investors often make when working on their own
- Keep pace with reporting requirements
- Put assets in the taxable and tax-deferred buckets that make sense for you
- Balance risk/reward against inflation
- Make sure your portfolio is properly diversified
- Select the investments – be they stocks, municipal bonds, REITs, etc. – that are best suited to your situation
- Track the performance of your investments against relevant benchmarks
- Interface with other professionals like estate planners, insurance agents, lawyers and accountants
- Maximize your benefits at work
- Fit supplemental life insurance options into your overall plan
- Account for long-term care insurance
- Determine if you need excess liability insurance

Act while time is on your side

Planning for your financial future is a complex process, and it's never "one size fits all." But there is one tenet that applies to all investors: it's better to **start as soon as possible**. That way, you get the most from your greatest investing enhancer: time in the markets.

If the complexity of planning is making you delay, we believe the best way to overcome that is to work with a financial advisor. They'll get to work immediately, and partner with you to build a strategy and plan around your unique situation and your unique, personal goals. They'll help you choose the mix of stocks, bonds and other investments that gives you the best chance for success over the long term. And they make sure you're investing in the most tax-advantaged way possible, so you ultimately keep more of what you earn.

But remember, the longer you wait, the harder it likely will be to achieve your goals. If you're entering your peak earning years, we encourage you start putting your financial plan together today.

We at Mesirow are always ready to help. Reach out to us here.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture.

Mesirow Wealth Management is the firm's founding capability. We are the initial namesake business of Norman Mesirow, whose vision was to serve with purpose, applying the highest standards of professionalism in advising individuals and families on their most important life goals.

We look forward to having an opportunity to serve you and your family.

To learn more, visit mesirow.com/wealthmanagement, call 847.681.2300 or email wealth@mesirow.com.