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FOCUSED ON WHAT MATTERS MOST.

The Monkey and the Volcano: A Cadence Fable

Halfway up the slope of a volcano lived a monkey. Like his fellow monkeys, he spent the majority of his days picking and eating fruit off the trees growing on the side of the volcano. Unbeknownst to his friends, however, he dreamed of one day opening his own banana pie stand where he could spend his old age providing delight to others, just making and serving pie, passing the time in enjoyable conversation. He dreamed this every day as he foraged, and it made him happy.

But he knew he would only get there if he grew big and strong enough to build that stand, so he ate as much fruit as he could from the trees half way up the mountain. One day a friend of his told him he was moving further up the volcano to get fruit, because as every monkey knew, the higher up the volcano you were, the better and more nutritious was the fruit. The monkey had been hanging out halfway up the volcano because if it ever erupted, he wanted to be able to make it down off the volcano before the lava could reach him. While foraging and frolicking, many a tale was told of monkeys who picked fruit too high up in dangerous times who never made it back down.

His friend assured him, though, that now was a good time to be going higher, because the fruit up there had been growing ever more delicious and nutritious. “Hmmm,” thought the monkey, “that would mean I would be able to build the pie stand faster, for I would grow even bigger and stronger.” But he still wasn’t sure.

“Why has the fruit been growing more delicious and nutritious?” he asked his friend.

“Because the volcano has turned active again, and the ash from the volcano is nourishing the trees, and there is more ash falling the higher you go.”

“But, isn’t it more dangerous up there now?”, he asked. “Aren’t you worried the volcano will erupt and you will not outrun the lava?”

“Pshaw,” said his friend. “I’ve heard the volcano isn’t going to erupt for a while, and I will move back down before I think it will.” And with that, his friend was off, moving higher up the volcano under the wistful eyes of the monkey.

Days and weeks passed, and not only was there no eruption, the monkey saw more and more of his troop heading higher every day. “Come on!” they yelled, “You don’t want to miss it! The fruit is more nutritious and delicious than ever before!”

Finally, he couldn’t take it any more. He could look up the mountain and see all his friends, laughing and frolicking and swinging, eating the fruit that was more delicious than ever before. He could feel the rumblings of the volcano, but it had been rumbling so long now that he barely even noticed it. “I can get my pie stand so much faster if I were bigger and stronger,” he thought, so he too started moving up the slope.

He had not reached his friends yet when he saw a very old monkey walking down the volcano.

“Hey! Where are you going?” asked the monkey. “Isn’t the fruit at the top more delicious and nutritious than ever?”

“Goodness yes, my young friend, it is,” said the very old monkey, continuing down the slope.

“Then why are you going down the volcano?” he asked.

“Because,” replied the very old monkey, “I did not get this old by staying at the top of the volcano when it rumbled this hard for this long.” And with that, he continued down the slope, growing smaller and smaller until he could no longer be seen.

The monkey knew he was taking a risk by going higher, but he rationalized he would only stay and eat the fruit long enough to

get big and strong, and then he too would return down the volcano to build his pie stand far sooner than he’d ever dreamed. He kept going higher, right toward the top, where the fruit was even more nutritious and delicious than he’d imagined. During the day he ate and played and frolicked with his friends. At night they rested and grew stronger. They had all grown so used to the rumblings, they barely even noticed them, even as they kept getting stronger. There came a day when the monkeys no longer even considered the volcano a threat.

Because the volcano had not erupted for many years, when it did, the lava flowed faster and farther down the slope than anticipated, making outrunning it impossible.

As the new lava toward the top quickly cooled and the fast growing trees reappeared with all that new volcanic soil helping them create fruit even more delicious and nutritious than before the eruption, the very old monkey made his way back up the slope. He was wise enough to know the best time to reach for the better fruit was after the eruption and not before.



Are You Leaving Money on the 401(k) Table?

Contributing to a 401(k) plan is good, right? Then contributing the maximum possible to a 401(k) is even better. However, there is one small mistake we see people making that can have a surprisingly big impact over time: hitting the maximum they can contribute before the final paycheck of the year.

It may be best to illustrate the mechanics of this with an example. Consider someone making \$125,000 per year, paid out as \$5,208 gross twice per month. If that person decides to save 18% of his or her salary, he or she would contribute \$938 every paycheck and would hit the \$18,000 limit this year on paycheck number 20, leaving 4 paychecks with no 401(k) contribution.

That can feel great toward the end of the year, as there's more in each paycheck, and just in time for Christmas!

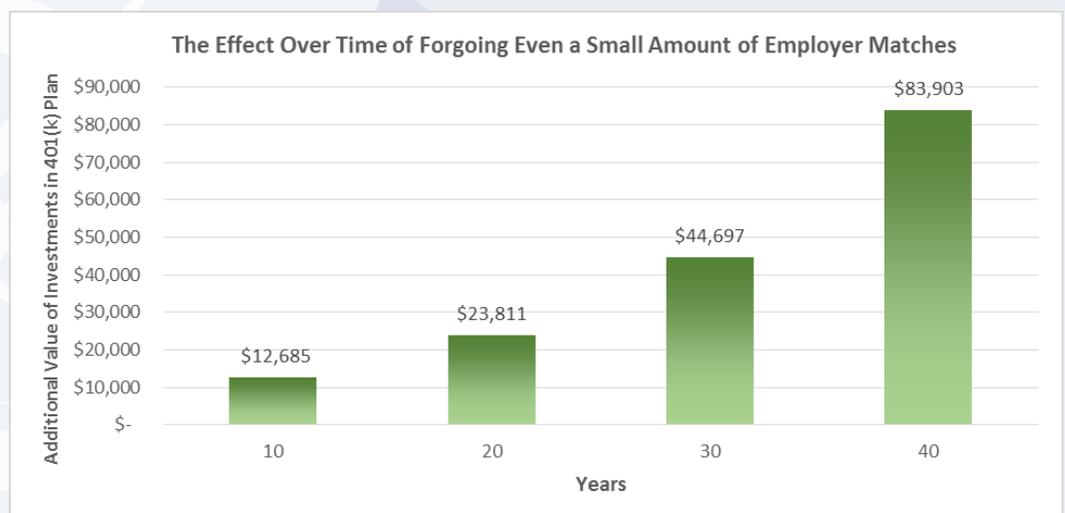
However, employer contributions are usually in the form of matches, and unless the plan has a "true-up" provision, for any paycheck an employee is not contributing to his or her 401(k) plan, neither is the employer. In this example, the employer is matching 100% of the first 5%, which is one of a variety of ways employers match. As a result, the employee needs to be saving at least \$260 per paycheck ($5\% \times \$5,208$) to receive the maximum match from the employer, which in the case of this employee would be \$260.

Therefore, those 4 paychecks where the employee is not contributing will cost him or her \$1,042 ($4 \times \260) in lost employer 401(k) contributions. Just think, giving up over a thousand dollars per year just because you got your withholding percentage a little off.

Unfortunately, though, it's even a little bit worse than that. In the 20th paycheck, which is the final paycheck of the year this employee is contributing, the employee is only allowed to contribute \$188, or he or she would go over \$18,000 for the year. The problem for this paycheck is that \$188 is only 3.6% of the employee's pay, and therefore the employer also only has to contribute 3.6%, not the full 5%. So to add insult to injury, instead of not receiving \$1,042 in employer matches, this employee is also forgoing just a little bit more, \$73 to be precise. That brings the total lost matching dollars to \$1,115 on the year.

One year of this is not the end of the world by any means, but imagine the effect of doing this year after year. 401(k) contribution limits change frequently, but for illustrative purposes let's assume this person foregoes \$1,115 every year for 10 years, and the growth rate on his or her investments over those 10 years is 6.5%. At the end of that decade, he or she would have \$12,685 more invested by fixing this mistake than by letting it continue.

If the mistake ended at this point, because either the employee caught it or retired, the effects would still keep growing over time. Carrying that extra \$12,685 forward over a variety of timeframes at that same 6.5% results in:



As you can see, that “little” mistake keeps compounding to the point where 30 years in, it would be nearly a \$45,000 mistake, and 40 years in nearly an \$84,000 mistake!

To prevent making this little mistake that could grow into a much bigger one:

1. Check with your employer if your 401(k) plan has a “true-up” provision. If it does, then you can rest assured you’ll get the full match on all of your contributions as though they were spread out over every paycheck throughout the year. If there isn’t one, then read on.
2. Make sure you are withholding a percentage that will result in your contributing every single paycheck.
3. To figure out the percentage you need to save to hit the max, just divide the yearly max by your salary. In the example above, that would be 14.4% ($\$18,000 / \$125,000$).
4. If you have annual bonuses or commissions that also contribute to your 401(k) savings, it will be trickier. You will have to keep an eye on how much you’ve saved toward the max as you go.
5. If your employer only allows you to save in whole percentages, as opposed to the 14.4% above, we recommend you round up to start, and then downshift to a lower percentage later in the year. In this case, the employee would start by saving 15%, and then switch to 14% on the 10th paycheck, which would be his or her second paycheck in May.
6. Always remember: on your final paycheck, you must save at least as much of your pay as will allow you to get the maximum employer match. In this case, the employee needs to save at least 5% to get the full 5% employer matching contribution.

All things being equal, contributing to a 401(k) plan is an important way for an employee to save for his or her retirement. To get that maximum employer match in any year you intend to save the maximum, you’ll have to do a little work, but we believe this little amount of work is worth \$45,000 more dollars 30 years down the road. If this type of calculation is not your strong suit, then please ask us for help.

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