Palms Music Foundation
Financial Resource Guide

As presented by Sam Strum and Field Financial Strategies, LLC

Field Financial Strategies is a financial planning group from New York that works with a variety of industry professionals to help them make empowered decisions with their money. Friend of the foundation, Samuel Strum, primarily works with musicians and entertainers as a Financial Advisor for Field Financial Strategies; and helped us compile this toolkit! Sam has received accolades and acknowledgments from New York Life and is a qualifying member of the Million Dollar Round Table. Thank you to Sam and Field Financial Strategies for access to this fantastic resource!

Field Financial Strategies, LLC[SM]

Live Confidently.

A Guide to Personal Finances

To empower you to live life to the fullest and confidently pursue your goals, worry-free about your finances.

Dear Reader,

We are excited to share with you some of the basic nuts and bolts of personal finance in this guide. Our goal is to highlight the fundamental concepts and tools that serve as the foundation of building financial success. Once your foundation is in place, you will be empowered to build upon your own financial planning to work toward achieving your financial goals. As an overview of the basics, this guide will not go into extensive detail, and some more advanced topics will not be covered here.

Before we discuss the nitty gritty, we want to acknowledge each of you for taking the time to read through this personal finance guide. Financial literacy is not a structured part of the education system in American society, and many people view discussing finance as taboo. But, by simply reading through this guide, you have begun taking control over your personal finances! You do not want to run out of money before you run out of life. Those who find themselves in this situation do not necessarily plan to fail; they fail to plan.

For us to move forward, we should first establish an appropriate mindset and build habits. If we cannot develop the discipline to carry out our goals, the knowledge is for naught. Both discipline and knowledge are integral in achieving financial independence - one without the other will result in retreating from the financial goals you set out for yourself.

The objective of achieving financial security and being in control of your finances is to empower you to accomplish your goals. Your goals should be to live life on your own terms, not to necessarily make money. Money is a tool, a conduit to making your goals a reality.

We wish you the best on your financial journey. The path to success is rarely easy, but often rewarding. And note, every dollar counts.

Sincerely,

Sam Strum

THIS GUIDE IS FOR YOU IF…

- You are ready to proactively consider your financial situation.
- You are going through life events that warrant financial planning conversations.
- You have concrete personal, professional, and financial goals.
- You are willing to develop healthy financial habits and establish systems to stay on track of achieving those goals.

IN THIS GUIDE YOU WILL LEARN…

- How to measure your success, protect your wealth, and grow your wealth.
- What gaps you may have in your current financial picture.
- Why certain areas of planning may or may not be appropriate depending on your goals and priorities.
- That you may finish this guide with more questions than answers!

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Cash Flow

Simply put, cash flow is what is coming in vs. what is going out. For a business, it is the revenue you bring in and the amount flowing out to pay for your expenses. And likewise, as it relates to your own personal finances, it is the income you bring in, as well as what you are spending on your bills and on everything that supports your lifestyle.

To determine your household income, we first add up your income sources as well as other income sources that contribute to your household (i.e., income of your spouse or family member). The sum is your net income. Generally, income falls into two categories. The first is earned income, which is income you earn from your business(es) or employer(s). The second is passive income, which can include interest and dividends from your investments, and rental income if you own property.

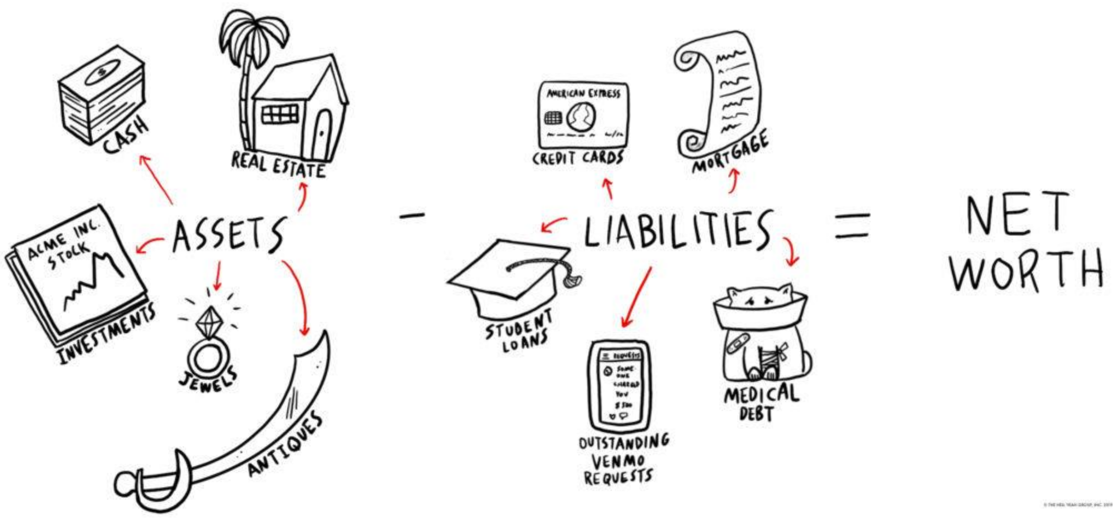
As we mentioned earlier, expenses include bills like: your mortgage/rent, utilities, phone, childcare, tuition, transportation, taxes - typically what you see in a budget. And just as importantly, we should include the expenses that contribute towards your lifestyle. Lifestyle expenses include money spent on things that give you comfort and excitement, such as food and dining, entertainment, and travel.

[Income - Expenses = Cash Flow]

After you subtract your expenses from your income, what is left over is your personal cash flow. Stating the obvious, the goal is to have positive cash flow, which is what we call your discretionary income. The more you have, the more you can set aside towards building assets and getting you closer to your goals and priorities. If you are spending more than your means, however, you have negative cash flow, which results in taking on debt. Not all debt is necessarily bad - it can be used to create opportunities to produce revenue/create income. However, the more debt you accumulate, the more difficult it will be to set money aside for your goals and allow you to live life on your own terms. If you are spending more than your means, you have two options - to cut back on your expenses, and/or make more money!

Net Worth

Your net worth is what you look like, financially, on any given day. It is the difference between what you own (your assets) and what you owe (your liabilities). It is difficult to establish realistic financial goals without first knowing your current financial standing. To live life on your own terms, it is important to strive to continue increasing your net worth, either by increasing assets and/or decreasing liabilities. Increasing your net worth allows you to take advantage of certain financial accounts or give you access to leverage certain types of debts (business loans, mortgages, etc.) to improve your financial situation.



Assets are what you own. They include physical property (like a car or house), financial accounts (like investments, bank accounts, and retirement plans), collectibles (like art, coins, cards), business interests, pensions, the list continues.

Liabilities are what you owe (credit cards, current bills, taxes, loans, mortgages, and debts to individuals).

When you know your cash flow and net worth, you can now measure your financial success and actively plan towards your goals and priorities.

Risk Management

To achieve financial independence and security, you should first begin with protecting your money and what you have. Here, we refer to money not only as what we own (our assets), but also what we earn (our income). If we simply begin growing our money without setting in place protections, we are at risk of losing not just some of our money, but potentially all of it. When financial hardships come our way or life does not go as planned, how do you appropriately soften the blow to your finances?

The two main lines of defense are an emergency fund and insurance planning.

Emergency Fund

An emergency fund is exactly what it sounds like, a fund for emergencies, and it should be one of your priorities on your way to financial independence. It is your money for a "rainy day" to be used when you are in a place of financial hardship or financial transition. It is not meant to be savings for retirement, or for your next trip, or for a big purchase. Rather, it is to be used if you (or your significant other) have a loss of income and money to hold you over until you have income coming in again. Also, it serves as your back-up resource if you have a surprise medical bill or if you become disabled. Without an emergency fund, you may feel the need to either pull from your other assets, like your investments or retirement plans, or go into debt to pay for the emergencies. Any of the above scenarios will detract from achieving your goals. In other words, an emergency fund will allow you to minimize loss and keep you on track. If you have a business, your business should also have an emergency fund, too.

So, how do we calculate an emergency fund, how much is appropriate, and what type of financial account should be utilized? Normally, an emergency fund is calculated by multiplying your monthly expenses by the number of months you believe would be appropriate for you to live if you did not pull in an income. For example, if you are spending $4000/month and if you wanted a 3-month emergency fund, you should have at minimum, $12,000 set aside. The standard emergency fund is typically between 3 to 6 months of expenses, however as a business owner, you should consider increasing the size of your emergency fund to be between 6 to 12 months. You may have months when your business is booming and others when it is struggling. Ultimately, you know your business better than anyone else and whatever amount you believe will best suit your needs. Lastly, an emergency fund should be in a financial account that is easily accessible and liquid, typically in bank accounts or money market funds. You should avoid stock market exposure where you could potentially lose money or accounts that lock up the money for some time where you could face a penalty for accessing that money early.

Insurance Planning

Everyone's favorite topic! We are aware that few, if any, like to spend money on premiums that seemingly disappear, but insurance planning is necessary for protecting your money. Insurance, like an emergency fund, is used to minimize losses in case of emergencies and allow you to keep your planning on track.

Health Insurance

We begin with the bedrock of insurance planning, health insurance. Again, no one likes to spend premiums on health insurance, especially if you believe you are a healthy individual. The alternative to having no health insurance, however, is a disaster waiting to happen. Your health status can change at any time without warning, which is why it is important for you and your family to have adequate medical coverage should you require hospitalization, or even routine care like medical check-ups and drug prescriptions. Without health insurance, the bills can rack up and you may not have enough in your emergency fund to pay for it.

To acquire health insurance, you have a few options:

1. Through your state marketplace, although the premiums tend to be a lot more and the value can be significantly lower.
2. Through private health insurance carriers, where you would be individually underwritten and could be declined, but if you are healthy it could result in lower costs.
3. Through your business or employer as a group benefit, although the type of coverage you can receive may depend on how many employees are on the payroll. The employer may even subsidize the cost of insurance so you and other employees would not have to pay as much for the plan.

Disability Income Insurance

What would happen if suddenly you became too sick to work or became physically incapacitated in some way that prevented you from working? How would that affect your living situation? Where will the money come from to pay for your bills and lifestyle?

Disability income insurance keeps the lights on. It protects what is arguably your most important asset, your human capital – i.e., your ability to earn income. The coverage should be enough to not only pay for your expenses, but ideally more so you can still set money aside for your priorities. After you successfully file a claim, the carrier will give you a monthly income for a period of time as illustrated in the contract. Disability income insurance can be provided in mainly two ways, as an individually underwritten policy that can be customized for your needs, and/or through your employer or business as a group benefit offered to you and other employees.

Life Insurance

Life insurance is incredibly valuable if used appropriately and has a number of different uses. If you were to pass away while covered by a policy, a tax-free, lump sum amount of money is paid to your beneficiaries. The instant cash flow can be used to take care of a variety of needs, including:

1. Debt Reduction – proceeds can pay off your debts, whether student loans, business loans, overdue taxes, credit card debt, mortgages, etc.
2. Income - if a spouse, partner or another dependent relies on you for income, then the policy's lump sum can be used as an income stream replacement.
3. Key Person - if your business has an irreplaceable employee, it is common to have a life insurance plan on that employee. If they were to prematurely pass, you would have funds to replace the income they would have brought in and/or have the money to hire a new employee to fill in the role.
4. Legacy and estate planning - you may want to leave money to your family or charities. Life insurance can help make sure expenses, debts, and taxes do not consume the assets you wish to pass on to your beneficiaries.

Life insurance, like disability income insurance, can be acquired in mainly two ways. The first is as an individually underwritten policy that can be customized for your needs. The second is through your employer or your business as a group benefit offered to you and other employees.

Property & Casualty Insurance

What happens if your property is damaged or stolen, or if you are sued? Property and Casualty (P&C) insurance products, like homeowners and renter's insurance, car insurance, and personal liability insurance address the costs of replacing property or lawsuits. P&C products fit most individuals budgets and is a type of insurance plan often purchased through private carriers directly or through a P&C insurance broker.

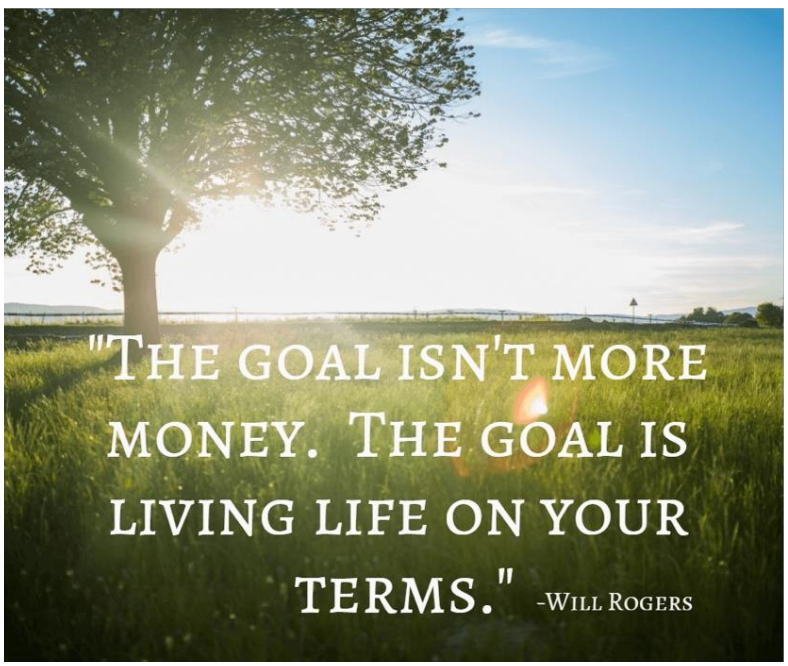
To sum up risk management, an emergency fund, when combined with insurance planning customized to your needs, will protect your assets and income. Now that your money is adequately safeguarded, we can begin growing your money.

Wealth Accumulation

The goal of investing to make your money work as hard as possible for you, so you do not have to work as hard as possible for your money. When investing your money, you should consider the following:

- What is the timeline for you to achieve your goals?
- What is your risk tolerance? To what extent can you tolerate market exposure? How do you feel about the possibility of not only gaining money in the market, but potentially losing it as well?
- How liquid do you want your money to be while growing it?
- What are the tax benefits or consequences of the financial accounts you can use to grow your money?
- How do you ensure you never run out of money before you run out of life?

While you chew on those questions, let us discuss common types of planning.



Retirement Planning

When growing your wealth for retirement purposes, many Americans take advantage of certain financial accounts regulated by the United States government to gain specific tax benefits. There are a few different types, but as it relates to retirement planning, there are two main tax categories.

Pre-tax

Pre-tax vehicles are those in which your contributions are tax-deductible. In other words, you can write off the money you set aside into these plans to lower your overall current tax liability. The money in the account will grow tax-deferred until you withdraw the money from the plan, at which time it is taxed as earned income. For example, if your personal income is gross $100,000 annually, and you make a $5,000 contribution into a pre-tax account, you can deduct $5,000 from your income to be at an adjustable gross income (AGI) of $95,000. Now let us say at age 65 you withdraw $50,000 from your pre-tax plan and your earned income is $25,000, that year you will be taxed at $75,000. Common pre-tax vehicles include the 401k, Traditional IRA, SEP IRA, etc. Note that there are usually penalties associated with early withdrawals, typically before the age of 59 ½ years old.

Post-tax

Post-tax vehicles, like Roth IRAs or Roth 401ks, are simply the reverse in terms of taxation to ~~of~~ pre-tax accounts. Unlike a 401k or a Traditional IRA, your contributions cannot be written off as deductions, but because you have essentially paid taxes on that money already by not deducting contributions, the growth in the account is not taxed. Even more importantly, what you withdraw in the future will be tax-free. The most common type of post-tax vehicles is the Roth IRA. Like a Traditional IRA, you would be penalized for pulling money out of the account before the age of 59 ½ years old. However, if you make too much earned income, you may not be allowed to contribute towards the account.

These pre-tax and post-tax accounts are both government-controlled plans, in which the government sets the regulations regarding contribution limits and additional parameters.

Education Funding

You are probably aware that education costs are escalating annually. It is clearly more expensive today to attend public and private schools, be it college or other educational institutions, than it was in previous generations. There are many ways to set money aside for educational costs but the financial accounts that will grant you specific tax benefits for education are 529 plans and Coverdell Education Savings Accounts. Both types of plans allow you to grow your money tax-deferred and can be taken out tax-free as long as they are for qualified education expenses. Each plan has their own benefits and drawbacks, but both are popular accounts for funding education.

Additional Investing

In addition to retirement plans, you may utilize other types of investments for various reasons. One reason may be that you have more money to invest than retirement plans allow. Or, you may prefer to have your money more liquid or geared toward shorter-term timelines. A brokerage account, where there is not a penalty for withdrawing money too early, is a common vehicle to grow your money in the market and also give liquidity. Note that in this type of account, you will be subject to capital gains taxes on income earned by the account. Other options for investment include investing in assets that are not standard financial accounts. These could include the following:

- Real Estate, which includes the purchase of land, buildings, houses, and other similar properties to generate passive or rental income and take advantage of unique tax benefits
- Private Equity, which is investing in funds or assets that are not open to the typical public investor. Usually, you need to have a high net worth to be eligible for these investment options.
- Certain Collectibles – like art, coins, and cards – are considered assets.

Achieving Financial Independence

Accumulating enough wealth to become financially independent takes discipline and planning. It may also mean making some sacrifices in the short term. But the more financial wealth you have, the easier it is to live life on your own terms. When you achieve financial independence, you are not worried about paying the bills anymore, you can enjoy the vacations you want, and you can leave a legacy to your family and the causes in which you believe. Most importantly, you do not want to run out of money before you run out of life. What is worse than being young and broke, is being old and broke, and none of us want to be in that situation! Those who end up that way do not necessarily plan to fail; they fail to plan. When you can measure your success and effectively plan, your journey to financial independence begins. By committing to follow your financial plan, you will be on your way to living life to the fullest and to confidently pursue your goals, worry-free about your finances.

NEXT STEPS

Now that you have a basic understanding of personal finance, what are your next steps?

Below is a general action plan we believe would be appropriate:

1. Create a balance sheet of your personal assets and liabilities to determine your net worth
2. Take inventory of the insurance policies you currently have
3. Create a budget (or update it) with all your expenses, including bills and lifestyle expenses listed in the Cash Flow section above.
4. Determine your cash flow and where you stand

After reading this guide, if you would like assistance with your planning, I would be happy to review where you are and where you would like to be.

As a financial advisor, my mission is to empower you to live life to the fullest and confidently pursue your goals, worry-free about your finances.

Our clients work with us because they not only value our guidance and advice, but because we help hold them accountable to their financial goals. They can spend more time focusing on creating income while we focus on making their money work for them the way it should.

To set up a time to meet, please contact Sam Strum:

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