WEEKEND INVESTOR

The 15 Numbers Every Investor Needs to Know

These Figures Are Critical for Investing, Taxes and Financial Planning

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Some numbers matter far more than others in making smart decisions about your money. *BLOOMBERG NEWS*

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4 COMMENTS

In a world full of numbers, it is easy to lose sight of which ones are most important to your personal finances.

Just as a doctor checks your vital signs, certain figures are key indicators of your current and future financial well-being.

Here are 15 numbers that everyone should know:

INVESTING

Percentage of Your Savings in Stocks

There isn't a set answer as to how much of your portfolio to keep in stocks, which often are the riskiest and highest-returning holdings. A lot depends on your age and risk tolerance. But at the very least, you should know your exposure.

John Hornor, who is 57 years old and who retired from his engineering job in April, says he and his wife reduced their stock exposure on the advice of Paul Baumbach, a financial adviser at Mallard Financial Partners in Newark, Del., with whom they recently began working.

"We have a 60/40 [stocks/bonds] allocation right now, but prior to being managed I was more on the 80% to 90% stocks side," says Mr. Hornor, who lives in Newark. "We're more protected from any downturn now because we're more diversified."

Maximum 401(k) Contribution

If you are setting aside far less than the maximum allowed in your workplace retirement plan, maybe it is time to up your game.

For 2015, the combination of pretax dollars you put into a traditional 401(k) and after-tax contributions to a Roth 401(k) can add up to $18,000, with an additional $6,000 catch-up allowed for those 50 or older. (With a Roth account, there is no upfront tax benefit but withdrawals in retirement can be tax-free.)

It is possible to also put additional dollars into a traditional 401(k) on an after-tax basis and then roll that money into a Roth individual retirement account when you retire—a move clarified by the Internal Revenue Service in 2014.

Price/Earnings Ratio of Stocks

U.S. stocks had a banner year in 2014, but with those gains come concerns about shares being expensive. One way to value the overall market—and determine whether or not it might be a good time to add to your stock exposure—is to use the average price/earnings ratio of the stocks in a benchmark index such as the S&P 500.

The P/E of the S&P 500 recently sat at 19.73, based on earnings reported by the companies in the index over the 12 months through September, according to S&P Dow Jones Indices. That is higher than the historical average of 16.92 since 1936. But it is below the average of the past 20 years of 22.47 (excluding the final quarter of 2008, which was the only quarter of negative earnings in the index's history).

Average Yield on Bonds

The returns that bonds will deliver over time are far more predictable than those of stocks, which makes bonds an important source of safety for investors.

If you want to know what your bond portfolio likely will return over the next decade or two, look at today's yields. (The benchmark 10-year Treasury note is yielding about 2.2%; check the yields of bond funds on fund-company websites.)

It is difficult to predict how bonds will perform in the short term; if interest rates jump, for example, investors could lose money as bonds' resale values drop. But historically,current yield has given a much better indication of long-term returns than past performance of a bond or fixed-income fund.

Average Expenses of Your Funds

As an individual investor, you can't control the market. But you can control the expenses you pay for your mutual funds. High-cost funds can take a significant bite out of your returns, says David Lyon, chief executive of Main Street Financial in Chicago.

Find funds' expense ratios using prospectuses, fund-company websites or resources such as WSJ.com's Market Data tab or Morningstar.com.

Aim to pay no more than 1% of assets in annual fees for actively managed funds, because anything more is "just too much of a headwind," says Evor Vattuone, a financial planner and president of Aspire Capital Management in Walnut Creek, Calif. Look for expenses under 0.5%, or even under 0.25%, for index funds, he says.

TAXES

Adjusted Gross Income

This income figure can have a major influence on which tax deductions and credits you are eligible for, says Jonathan Heller, a financial planner and president of KEJ Financial Advisors in Newtown, Pa.

The number is found at the bottom of the first page of the Form 1040 tax return. It is a tally of your income after certain adjustments—but before subtracting personal exemptions and either the standard or itemized deductions.

The 3.8% surtax on net investment income, for example, kicks in for most single filers when AGI reaches $200,000, while joint filers have a $250,000 threshold. Medicare Part B and D premiums start to rise for most single filers with AGI of more than $85,000, or $170,000 for those married filing jointly.

Boosting contributions to pretax retirement accounts like a 401(k) is one way to reduce AGI.

In years past, people age 70½ or older were able to reduce their AGI by making a direct transfer of up to $100,000 from an individual retirement account to charity, thereby reducing taxable distributions. That provision expired Thursday, although it may be reauthorized by Congress for 2015 transfers.

Your State's Estate-Tax Exemption Amount

Two years ago, Congress set the amount of money you can leave to heirs without any federal estate tax being due at more than $5 million per individual, and double that for a married couple.

But many states have much smaller exemptions before state estate or inheritance taxes kick in, making this number important for estate planning. New Jersey has the lowest state estate exemption, at $675,000. Oregon and Massachusetts are at $1 million.
State estate-tax bill in Massachusetts on an estate of $2 million

"I have to remind clients, you don't have a federal estate problem, but you may have a Massachusetts estate problem," says Scott Kaplowitch, an accountant and partner at Edelstein & Co. in Boston.

For example, the estate of a Massachusetts taxpayer who expects to leave $3 million to heirs other than a spouse would owe no tax to the federal government. But unless the taxpayer takes steps to reduce that estate, which could involve gifts to family members and to charity, Massachusetts tax would be due. The state's estate-tax rates range up to 16%.

PLANNING
Your Fixed Living Expenses

Getting a handle on your recurring expenses is critical for retirement planning and also to determine how much money should be kept in an emergency fund in case of a job loss or other income disruption, says Suzanne Shier, Chicago-based chief tax strategist at Northern Trust.

Many advisers recommend a fund to cover at least six months of expenses such as mortgage payments or rent, utilities, loan payments, food and transportation.

Don't forget bills that crop up only a few times a year, such as some insurance premiums or property tax, says Mike Piershale, president of Piershale Financial Group in Crystal Lake, Ill. And while tallying expenses, look for items that you might be able to trim.

Yearly Health-Care Bill

Some health-care costs are predictable while others may vary sharply from year to year. Knowing how much you have been spending in insurance premiums, deductibles and copays is important for retirement planning, since health care is likely to be one of your biggest expenses.

Retirees should expect to pay, on average, at least $5,300 a year for Medicare premiums, supplemental “Medigap” coverage and out-of-pocket expenses like dental and vision checkups, says Cyndi Hutchins, director of financial gerontology for Bank of America Merrill Lynch. Add in more for items that aren’t covered by Medicare, like hearing aids and glasses and most long-term care, she says.

For nonretirees, if you have a choice of multiple health plans, consider your recent years’ spending in estimating whether you are better off paying higher premiums for a lower-deductible policy or going with a lower-premium plan that requires you to pay more out of pocket before coverage kicks in.

Cost to Rebuild Your Home

The cost of rebuilding your home can be very different from what the home might sell for. But it is the former that matters when it comes to buying insurance.

For example, if your home is on a big piece of property, the cost to rebuild could be significantly lower than the market value that includes the land. But an older home with a lot of architectural details could cost more to rebuild than the price it might sell for. You need enough coverage to make you whole after a major loss, but don’t want to pay for more than you need.

An insurance agent can generally help calculate rebuilding costs, or you can check with local construction contractors, says Loretta Worters, vice president of the Insurance Information Institute, an industry group.

Price-to-Rent Ratio

This is an important number if you are thinking of buying a first home—or are getting ready to downsize and have the choice of buying or renting your next place.

In a market where rentals are pricey, that is one reason to consider buying. But if rentals are cheap and plentiful, you might do better by going that route and investing the remaining dollars.

The basic idea is to take the average price of homes for sale and divide it by the cost of renting a similar property for a year. You might gather data by visiting properties or consulting a website such as Zillow.com. If the resulting number is less than 20, buying is likely the better option, says Dean Baker, co-director of the Center for Economic and Policy Research in Washington.

Life Expectancy

How long you likely are to live can affect a host of decisions, such as how to invest your retirement nest egg and how much you can safely withdraw each year.

There are online calculators that take into account family medical history and personal habits, among other factors; Mr. Baumbach, the Delaware adviser, suggests the Living to 100 calculator from Thomas Perls, a doctor who heads the New England Centenarian Study at Boston University School of Medicine.

Says William LeMaire, a 69-year-old client of Mr. Baumbach: “If for some reason you have a family history of everyone going at 75, you’d spend your money a whole lot differently than if you’re going to live to 90.” The number that he is working with after checking out some calculators: 88.

DEBT

Your Monthly Debt Service

What do you spend monthly on debt such as a mortgage, auto loan and any student debt? Include your credit-card bills if you aren’t paying them in full every month.

While individual situations vary, “if you’re paying more than half of your paycheck toward your debt, there’s something wrong,” Mr. Vattuone says, adding that debt at that level will make it harder to achieve retirement goals.

In prioritizing repayments, focus on the debt with the highest interest rates—typically credit cards. If your debt is unmanageable and includes federal student loans, you may have various repayment options available. Check out the government’s repayment estimator at StudentAid.ed.gov.

Consider also if you would be better off liquidating some low-earning assets, such as bonds, to pay down debt.

Your Mortgage Interest Rate

"It's easy to go on autopilot with automatic debit of mortgage payments and lose track of the current rate" on an adjustable-rate mortgage, says Northern Trust's Ms. Shier.

Snap out of it. The coming months could be the last chance for some homeowners to refinance before the Federal Reserve pushes interest rates considerably higher. Consider refinancing if you are able to shave your mortgage rate by at least one percentage point.

Your FICO Credit Score

Your credit score can have a big impact on the interest rates you can get for consumer loans—or if you even qualify for a loan at all. The most widely used score is the FICO score, which is calculated using a formula from Fair Isaac Corp. and which is becoming more available to consumers.

Savings on a four-year $25,000 auto loan for a borrower whose FICO score is 720 or above, versus someone in the 660-689 range

More lenders offer the score free to customers, with holders of Citi-branded credit cards being added to the list this month. At myFICO.com, people can pay $19.95 for a FICO score and credit report from any one of the three big credit-reporting companies—bringing the cost for all three to nearly $60. Experian, one of the three firms, just started providing FICO scores as part of its credit-monitoring service.