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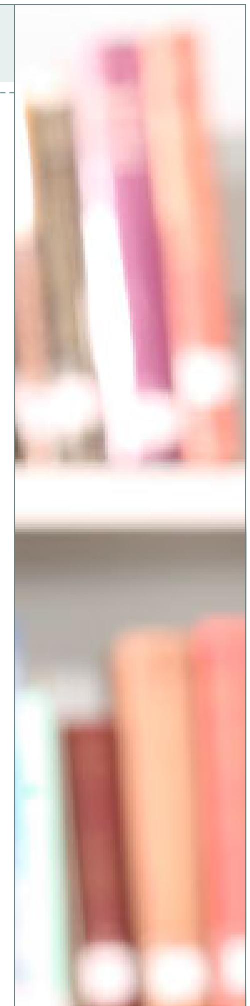


May 15, 2023

Managing Your Money

STAN'S WORLD—MAN PLANS, GOD LAUGHS

There's an old Yiddish expression that rings true far too often in life: "Man plans, and God laughs." The obvious meaning is that we all try to plan how our lives should unfold only to discover how much we don't control.

As financial planners, we attempt to incorporate a lot of what we do know into plans, plus a number of identifiable uncertainties. As plans are complex, success is based on many criteria, some more obvious than others. We start with the things we can calculate, such as investments, savings, income, and spending. Far less certain plan components include future healthcare expenses, interest rates, and how the stock market might perform. Then there are the things we think we know, including how long we'll continue to work at our jobs and perhaps how much we'll inherit from relatives. And lest we forget that whole longevity question; how long do you plan to live?

Financial plans are living documents that flex as life unfolds. We work with clients to help them to determine how much they should spend on vacations or how much to contribute to a child's or grandchild's 529 plan. Sometimes those decisions are based on investment returns. If a portfolio goes up thanks to a bull market or if savings increase due to an unexpected bonus, more discretionary dollars may be available. It's a work in progress.

We used to tell clients to focus on the things they could manage, such as housing costs or their careers, but we realize that even some of those decisions may be out of client control. While you may be able to control how long you work, you may no longer be able to dictate how long you'll continue to work at your current job or even in your field.

The 400-pound elephant in the room, of course, is health. It costs money if you're sick, and it can take you out of the workforce earlier than you planned, thus depriving you of income. Studies show people often plan to work longer than they actually do, and those lost years typically relate to poor health and job loss.

STAN'S WORLD— MAN PLANS, GOD LAUGHS (CONT'D)

While the notion that God may laugh at your plans may be sobering and perhaps even overwhelming, throwing up your hands and saying "What's the point?" isn't the answer. In fact, part of the planning process involves planning for contingencies. When clients call with bad news, we're often able to point to a contingency plan to cover cash flow for the next year or two (or longer). We're able to do that because that's part of the plan. ("Oh, so that's the point of the home equity line of credit!")

A financial plan is a guide; it's far from an absolute. It's a place to start and to chart a path, even if we know that straying off that path is inevitable.

If it has been a while since we reviewed your plan, perhaps it's time to do so. If planning is not a certainty, neither is hope a strategy. We'll work hard to get you where you want to go.

LONGEVITY AND RETIREMENT—WILL YOU OUTLIVE YOUR SAVINGS?

When you're in the business of financial planning, certainty is rarely an outcome. If someone were to retire with $10 million in investable assets, for example, while spending $50,000 per year, we could say with (almost) absolute certainty that they will never outlive their money. The truth is, however, that most of us have fewer assets, spend more each year, or some combination of the two. Thus, for the rest of us, the outcome of our financial plans falls into a range of probabilities.

Aside from any variance in annual spending (which is often related to lifestyle and health), one of the most unpredictable unknowns is life span. How do you know how many years you have left to live?

There's a reason why Social Security begins reduced payments at age 62; we used to have a sharply lower life expectancy than we do now. Many people used to work to the age of 62, retire, and then die within a few years. Often, waiting to collect Social Security was viewed as a bad option.

But times have changed. Due to better health care, a reduction in smoking, and improved personal care (including exercise), life expectancy is now far longer than it was when Social Security was signed into law by President Roosevelt on August 14, 1935.

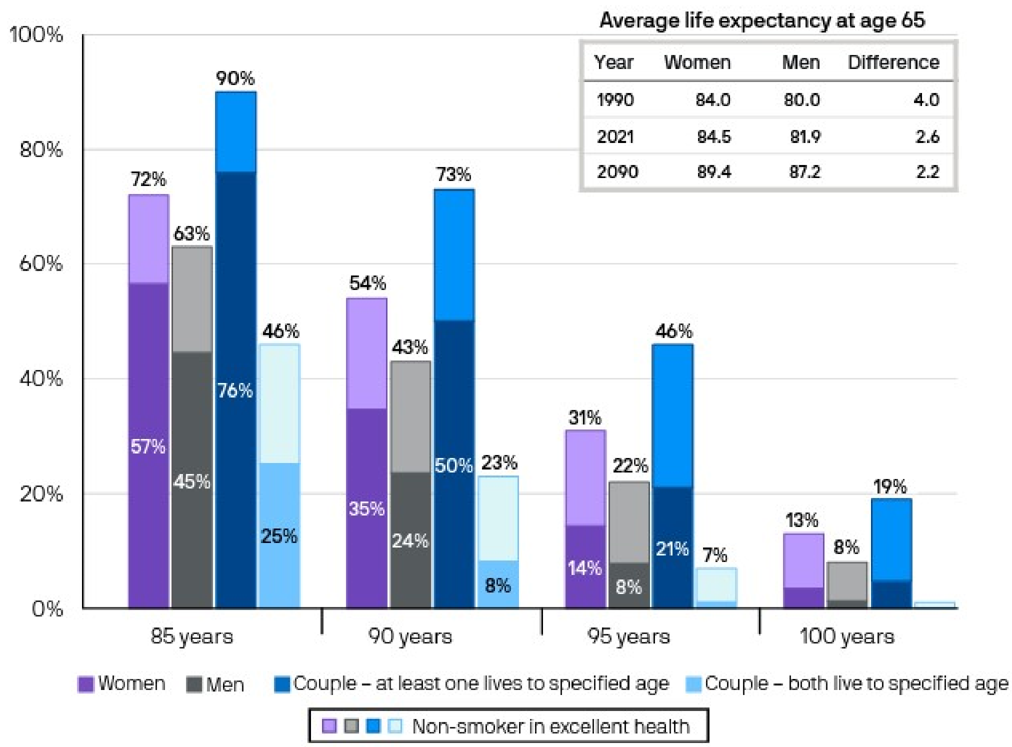
Using a chart prepared by JP Morgan (Life expectancy probabilities, see chart below), a glance at life expectancy probabilities can be both sobering and exhilarating in the same breath. ("Look at how many more years I may live!" or "Oh, no. This is all the money I have. Look at how many more years I may live!")

LONGEVITY AND RETIREMENT—WILL YOU OUTLIVE YOUR SAVINGS? (CONT'D)

Life expectancy probabilities

GTR 4

If you're age 65 today, the probability of living to a specific age or beyond



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.0	80.0	4.0
2021	84.5	81.9	2.6
2090	89.4	87.2	2.2

Plan for longevity

Average life expectancy is a mid-point not an end-point. You may need to plan on the probability of living much longer – perhaps 35 years in retirement – particularly if you are a non-smoker in excellent health.

Investing a portion of your portfolio for growth is important to maintain your purchasing power over time.

Source (chart): Social Security Administration, Period Life Table, 2019 (published in the 2022 OASDI Trustees Report); American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, http://www.longevityillustrator.org/ (accessed September 29, 2022), J.P. Morgan Asset Management. Source text: Social Security Administration 2022 OASDI Trustees Report.

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Here are a few noteworthy highlights, all based on a person living to age 65:

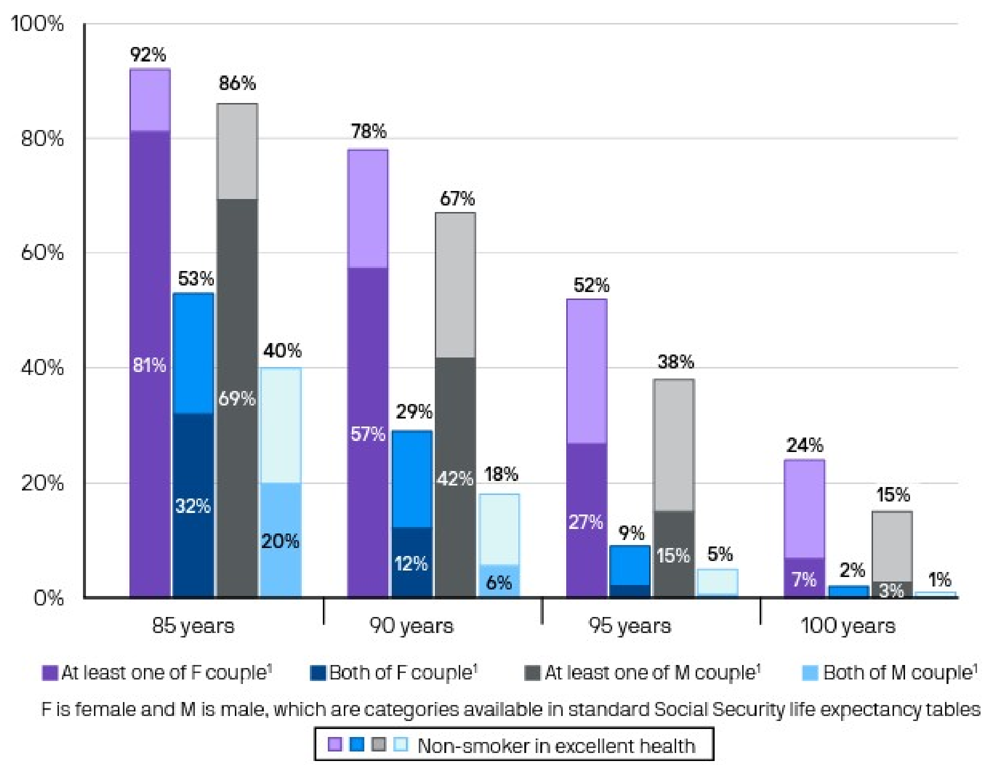
- The life expectancy for a woman who lives to age 65 is 84.5; for a man, it's 81.9.
- There is a 90% chance that at least one person in a couple will live to age 85; a 73% chance of at least one living to age 90; a 46% chance of one living to age 95; and a 19% chance (almost 1 in 5!) that one person within a couple will live to age 100.
- For a woman who lives to age 65, there is a 72% chance of living to age 85; 54% chance of living to age 90; 31% chance (almost 1 in 3!) chance of living to age 95; and a 13% chance of living to age 100.
- For a couple who both live to age 65, there is a 46% chance (almost 1 in 2!) they'll both live to age 85, and even a 23% chance they'll both live to age 90.

LONGEVITY AND RETIREMENT—WILL YOU OUTLIVE YOUR SAVINGS? (CONT'D)

Life expectancy probabilities for same sex couples

GTR 5

If you're age 65 today, the probability of living to a specific age or beyond



Plan for longevity

The longer-term trend is increasing life expectancy. This is magnified for female same-sex couples.

Average life expectancy is a mid-point not an end-point. You may need to plan on the probability of living much longer – perhaps 35 years in retirement – particularly if you are a non-smoker in excellent health.

Investing a portion of your portfolio for growth is important to maintain your purchasing power over time.

[1]Sex assigned at birth.
Source (chart): Social Security Administration, Period Life Table, 2019 (published in the 2022 OASDI Trustees Report); American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, http://www.longevityillustrator.org/ (accessed September 29, 2022), J.P. Morgan Asset Management. Source text: Social Security Administration 2022 OASDI Trustees Report.

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Starting with the assumption that both partners live to age 65:

- There is a 92% probability that at least one of a female couple will live to age 85; a 78% probability that one will live to age 90; a 52% probability to reach age 95; and a 24% probability (almost 1 in 4!) that at least one member of a female couple will live to age 100.
- Regardless of sex or marital affiliation, it's clear that the odds of a person living an extended life span are significant enough to factor into retirement plans. But at what price?

While a retiree shouldn't save all her money just because she may become a centenarian, the converse is also true. One shouldn't overspend during early retirement because you're banking on an early demise. Outliving your money is more than just a notion; it can be an unfortunate reality for many seniors.

LONGEVITY AND RETIREMENT—WILL YOU OUTLIVE YOUR SAVINGS? (CONT'D)

In terms of how much is 'safe' to spend each year in retirement and what proportion of your assets should be set aside for longevity, there's a middle ground for every client. They are conversations worth having, and we're here to have them with you.

TIME THE MARKET AT YOUR PERIL

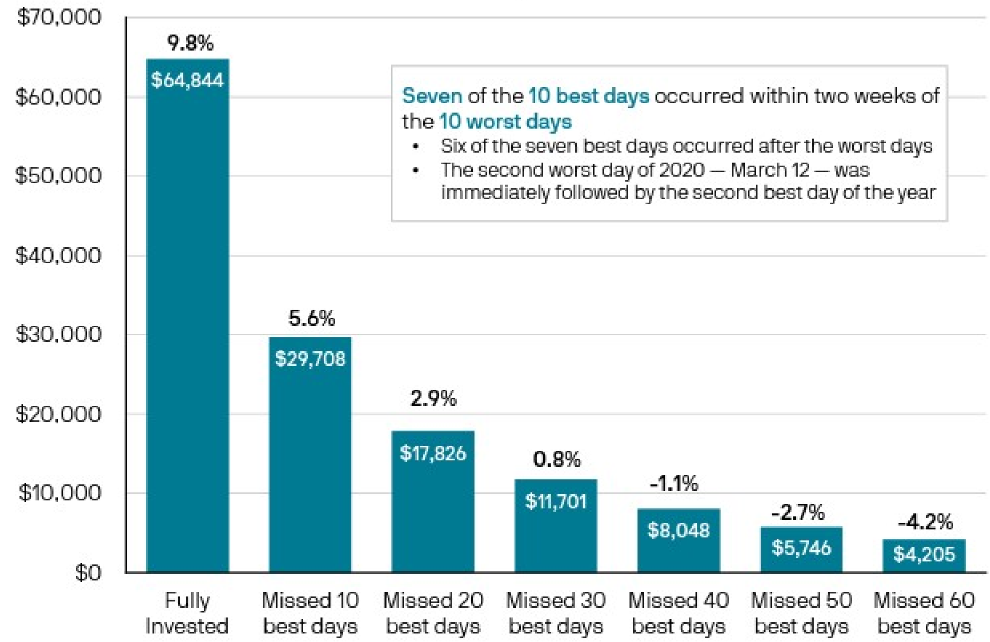
That's the title of a piece[1] written by David Booth from Dimensional Funds. In the paper, Booth notes that equity index funds represent more than half of the ownership in the stock market. (For clarification, equity index funds are passively managed. An example of an equity index is a fund that owns all the companies within the S&P 500 Index. That's in contrast to a mutual fund or ETF whereby the fund manager attempts to pick winners and losers in the stock market. That's known as active management.)

Impact of being out of the market

GTR 46

Returns of the S&P 500

Performance of a $10,000 investment between January 1, 2003 and December 30, 2022



Plan to stay invested

Losses hurt more than gains feel good. Market lows can result in emotional decision making.

Taking "control" by selling out of the market after the worst days is likely to result in missing the best days that follow. Investing for the long term in a well-diversified portfolio can result in a better retirement outcome.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2022.

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TIME THE MARKET AT YOUR PERIL (CONT'D)

Regardless of active or passive management, Booth notes that investors themselves actively trade index funds. Thus, one can only conclude that many investors think they have sufficient knowledge to time the market. That is, they know when to sell, and buy, and then do the same all over again "despite the overwhelming evidence and compelling story to the contrary… Picking stocks is more like gambling than investing."

Russell Investments notes "…investors often buy when markets are euphoric and sell when markets are bearish. When we look at the 15-year period from 2008 – 2022, we've found that the average investor's returns were 2.54% lower than the overall market's returns."

Using a table from the JP Morgan 2023 Guide to Retirement, the cost of trading the stock market can be quite expensive. (See table above)

A few conclusions from the data:

- Over the course of the 20-year period January 1, 2003 – December 31, 2022, a $10,000 investment in the S&P 500 Total Return Index would have returned 9.8% per year. (NOTE: The S&P 500 is an equity-only index, comprised of large and mega-cap companies. It is not a diversified portfolio, which would include fixed income, small-cap stocks, and equities from the international and emerging market sectors.)
- If you had missed the ten best days of that 20-year period because you were trying to time the market, the annual return would have dropped from 9.8% to 5.6%, an astounding difference considering we're only talking about ten days out of 20 years!
- If you had missed the 20 best days, the returns would have fallen to 2.9% per year.
- As noted on the chart: "Seven of the 10 best days occurred within two weeks of the 10 worst days."
- Six of the seven best days occurred after the worst days.
- The second worst day of 2020 – March 12 – was immediately followed by the second-best day of the year."

Also noted on the chart: "Losses hurt more than gains feel good. Market lows can result in emotional decision making. Taking "control" by selling out of the market after the worst days is likely to result in missing the best days that follow."

We know it's often very difficult to stay the course during a crisis, but the numbers show that a successful retirement may depend on it. There's an old saying that's worth repeating: Time in the market is more important than timing the market.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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1 Booth, David. "Time The Market at Your Peril." *Dimensional*, 29 Nov. 2022.