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Managing YOUR Money

STAN'S WORLD

Happy New Year! Best wishes for a healthy, happy, and prosperous 2017.

As the year drew to a close, we moved into the prediction silly season. In an often futile attempt to predict and outsmart the markets, print, on-line, and television media were filled with pundits predicting the markets will go up (or down); interest rates will rise (or fall); housing prices will climb (or drop); and on, and on. It's an inevitable occurrence.

Thus, I think it's only fitting that I make at least one prediction, a prediction I am confident has a 100% probability of occurrence. Unfortunately, I'm unable to tell you the date when it will occur, as my predictive powers are somewhat limited.

Don't let the allure of a 20,000 Dow influence you. There will be a day that the stock markets will begin to fall, and the trend line will turn down. The markets won't go down every day, but they'll drop from whatever high they eventually reach. It may take awhile to realize it's happening – one never knows when bull and bear markets start or end until long after they're over – but you'll see your portfolio drop in value almost every month. (Regretfully, my still limited predictive powers also can't tell you how much the markets will fall.) So now that I've shared this breathtaking revelation, what can we do about it?

Frankly, we're already doing two of the things that have proven to be effective at capturing upturns and limiting downturns: building diversified portfolios, and periodic rebalancing. Diversification mitigates risk¹, and rebalancing helps you to buy low and sell high². It's the best that scientific research has to offer, even when we know bad news lies somewhere ahead. (As you've read in this space countless times over the years, research³ also teaches us that trying to time market ups and downs is a very futile exercise.)

Admittedly, what I've stated really isn't a prediction, as economic cycles are part of all markets. The intent isn't to alarm you, but to remind you that trees don't grow to the sky. All rising markets eventually peak, stall, and turn down, and then the reverse eventually occurs.



STAN'S WORLD (CONT'D)

Eight years after the last market downturn, you're probably better positioned financially for the next one. While that might sound somewhat reassuring, I acknowledge that down is still down once the bear begins to growl.

If you're retired and relying on your investments to partially fund your retirement, take some additional comfort in knowing that the dollars you require for the near term are invested in fixed income mutual funds that are less volatile than equities. Not only does that provide necessary cash flow, it also buys time during a downturn until the markets turn around. It's also why we use a bucket strategy to try to protect you from upsetting the entire apple cart when markets turn scary: Bucket 1: cash; Bucket 2: short-term bond funds; Bucket 3: multi-sector bond funds; Bucket 4: equities. It's not sexy, and explaining it will NOT make you the center of attention at neighborhood barbecues and cocktail parties.

Once the bear market hits, the good news is that each day puts you one day closer to its end. Not only don't trees grow to the sky, but markets don't fall to zero.

Sometime after the bear market ends, markets will rally and push toward new highs. As that bull market gets long in the tooth, it will be time for me to repeat this cautionary note and demonstrate once again my predictive powers.

Once the bear market hits, the good news is that each day puts you one day closer to its end. Not only don't trees grow to the sky, but markets don't fall to zero.

BY THE NUMBERS⁶

- 2017 will have a Republican in the White House and Republicans controlling both the House and the Senate. Over the last 80 years, the S&P 500 has gained 11.7% per year (total return) when the **White House and Congress were controlled by the same political party.**
- 20 of the last 25 **Decembers** have produced a positive total return for the S&P 500. The average December performance since 1991 is a total return gain of 1.78%.
- Individual income taxes paid by American taxpayers would have to increase by 38% in order to **eliminate our \$587 billion deficit** from fiscal year 2016.
- A **child born in 2016** that begins kindergarten in the fall of 2021 would attend college between the years 2034-2038. If that child attended an average **public in-state 4-year college** and if the annual price increases for public colleges experienced over the last 30 years (+5.5%) continued into the future, the aggregate 4-year cost of the child's college education (including tuition, fees, room & board) would total **\$227,984** or \$56,996 per year.
- 2016 is the 4th year of **Barack Obama's 2nd 4-year** presidential term. The S&P 500 has been positive on a total return basis 17 of the last 20 "presidential 4th years."



A PURPOSE-DRIVEN LIFE

As every client, prospect, friend, the Shop-Rite fishmonger, and my spouse can all attest, I think it's important to discuss what people are going to do in retirement. (I know what they're not going to do; work, but what are they going to do.) Some tell me they don't need my help (e.g., my spouse), while others tell me they're going to continue selling fish for a living (e.g., the fishmonger).

Aside from my lingering worry that it's important for retirees to have a reason to get up each morning, new research on a purpose-driven life reveals that a reason to get up each morning offers surprising protection from a disease that terrifies older Americans: Alzheimer's. According to an article in The Star-Ledger⁴, "People who describe themselves as lacking a clear purpose in life are more likely to suffer cognitive decline and develop Alzheimer's disease, recent research shows."

In Japan, where the elderly are revered, they call it *ikigai*, "a term loosely translated as a reason to get out of bed...Studies show sense of purpose holds steady in Japan, but declines in the US as we age."

So what happens to us after retirement? How mentally and physical sedentary do we become? The Star-Ledger quotes researchers from the Rush University Medical Center in Chicago: "More social activity, more physical activities, high purpose in life - all these psychosocial factors seem to be linked with longer life, decreased mortality (and) decreased disability...On a personal level, all of us can ask ourselves if we still feel driven by some sense of purpose."



ikigai

A Japanese concept meaning "a reason for being".

Formed from two Japanese words:

- "iki" meaning "life"; "alive"
- "kai" meaning "an effect"; "fruit"; "worth"

BY THE NUMBERS⁶

- An estimated **9,900 Americans will turn 65 years old** each day in 2017. This group represents the 7th year of 19 years of "Baby Boomers" turning age 65. An estimated 11,500 Americans will turn 65 years old each day in the year 2029.
- **US employers added 178,000 net new jobs** during the month of November 2016, making it 1.982 million net new jobs that have been created year-to-date, or an average of 180,000 per month. Our country's 145.1 million employees are split 85/15 between the private sector and the public sector (i.e. government workers).
- The US imported 30% of the **energy** it consumed in 2006, a dependency that has dropped to 12% in 2016.
- When President Franklin D. Roosevelt proposed the **Social Security** retirement program in 1935, FDR's financial experts **projected** that total Social Security expenditures would reach **\$1.3 billion** in 1980, or 45 years into the future. **Actual** outlays in 1980 were **\$149 billion**, meaning the 1935 estimate represented less than 1% of actual 1980 Social Security expenditures.
- **Healthcare spending** in the US reached \$3.2 trillion in 2015 (18% of the nation's economy) equal to per person spending of \$9,990. In 1995, per person spending on healthcare was \$3,788.



A PURPOSE-DRIVEN LIFE... (CONT'D)

Researchers offer the following for helping to find renewed purpose in our later years:

- Volunteering: "Donating your time and talent to a non-profit organization or service group is one of the best ways to recapture what kept you socially active and mentally challenged during your work years."
- Take up a cause: "Get involved in politics or issues like protecting the environment, or preserving Social Security, or addressing hunger, or human rights or homelessness."
- Get active in your church: "...studies show people who are active in their faith and attend services once a week are less likely to experience cognitive decline."
- Launch an encore career: "For some people who have accumulated skills in one area of life and always been passionate about something else, they can re-engineer those skills to deploy in that new area."

Whether you're retired or not, what gets you up in the morning?

SOCIAL SECURITY SPEAKER, ANYONE?

My colleague, John Zeltmann, has prepared an approximately one hour interactive presentation on Social Security. It covers such topics as the current status of the Social Security system; when to claim benefits; and strategies for couples to coordinate benefits to maximize the amount they receive over their lifetime.

Over the years, John has presented this sort of program dozens of times to numerous groups. He has worked with civic groups looking for a lunch speaker, or benefits coordinators interested in providing information to company employees.

If you're part of a civic or work-related group and interested in learning more, please send John an e-mail: (jzeltmann@sfehrlich.com), or call him @908 789-1944.

BY THE NUMBERS⁶

- A **child born in 2016** that begins kindergarten in the fall of 2021 would attend college between the years 2034-2038. If that child attended an average **private 4-year college** and if the annual price increases for private colleges experienced over the last 30 years (+5.2% per year) continued into the future, the aggregate 4-year cost of the child's college education (including tuition, fees, room & board) would total **\$490,502** or \$122,625 per year.
- The average **30-year fixed rate mortgage** over the last 45 years is **8.26%**. The current average 30-year fixed rate mortgage is approximately **4.35%**.
- 59% of the 1.04 million **foreign students studying at American colleges** during last year's school year are natives of China, India, Saudi Arabia or South Korea. New York University (NYU) and the University of Southern California (USC) have the most foreign students in the US.
- US **exports of goods and services to China** have increased tenfold from 1999, rising from \$17 billion in 1999 to \$165 billion in 2015.
- A survey of 2,000 American adults found that their **"best financial decision ever made"** was "getting a college education" while their **"worst financial decision ever made"** was "not saving enough for retirement."



STAYING SAFE IN THE HOSPITAL

I often tell my near 95-year old mother that we're in charge of our bodies when it comes to doctors, but I'm constantly reminded that I'm dealing with someone from a generation who scrupulously listened to everything a doctor said.

I share the following from Consumer Reports⁵ because at some point you, or a loved one, will likely have a hospital stay. Pay careful attention; the life you save may be your own. (What's the point of trying to grow your portfolio if you're not going to be here to enjoy it?)

"Many hospitals have cut the risk of central-line infections among their patients, but too many have not. And sometimes bad things happen even in good hospitals...Here are key steps to take:

- Check up on your hospital: To compare hospitals in your area, go to CR.org/hospital-ratings.
- Have a friend or family member with you: That person can act as your advocate, ask questions, and keep notes. A Consumer Reports survey of 1,200 recently hospitalized people found that those who had a companion were 16 percent more likely to say that they had been treated respectfully by medical personnel. The most important times to have a companion are on nights, weekends, and holidays, when staff is reduced, and when shifts change.
- Keep a record: Keep a pad and pen nearby so that you can note what doctors and nurses say, which drugs you get, and questions you have...You can also use your phone to record thoughts or conversations with staff.
- Insist on clean hands: Don't hesitate to say: I'm sorry, but I didn't see you wash your hands. Would you mind doing it again?
- Keep it clean. Bring bleach wipes for bed rails, doorknobs, the phone, and the TV remote, all of which can harbor bacteria. (My note: I use them in hotel rooms; don't you?)
- Cover wounds: Some hospitals examine incisions daily for infection...Newer techniques...reduce chances of infection.
- Inquire whether IVs and catheters are still needed: The longer they're left in place, the greater the infection risk."

BY THE NUMBERS⁶

- **Only 5 banks have failed** in the US year-to-date, on pace to be the fewest number of bank failures since 2007 when just 3 banks failed. Over the 7 years from 2008-2014, 507 banks failed, an average of 72 per year.
- Through Oct 31, 2016, **banks repossessed 318,000 homes**. Banks repossessed 450,000 homes in 2015 and 671,000 homes in 2012.
- The percentage of home **mortgage loans that are delinquent** (i.e., defined as being at least 1 monthly payment late but not including those loans in the foreclosure process) peaked at **10.06%** at the end of the first quarter, 2010. As of the end of the third quarter, 2016, that number has **fallen to 4.52%**.
- **32% of Millennials are living with a parent**. Millennials are defined as the 75 million Americans ages 19-35 in 2016 (or individuals born between 1981-1997).
- The **national homeownership rate** in the US as of Sep 30, 2016 was 63.5%, down from a peak of 69.2% as of Dec 31, 2004. Every 1 percentage point reduction in the homeownership rate represents 1.2 million households that have changed from homeowner to renter status.
- There were 60 **AAA-rated companies** in 1980, a number that fell to 30 by 1995, and 6 in 2008. The number is now 2: Microsoft and Johnson & Johnson.



STAYING SAFE IN THE HOSPITAL (CONT'D)

- “Ask about antibiotics: For many surgeries, you should get an antibiotic 60 minutes before the operation. But research suggests that the type of antibiotic used or the timing of when it’s administered is wrong in up to half of cases.
- Postpone surgery if you have an infection. That increases your risk of developing a new infection and worsening an existing one.
- Say no to razors: The nurse should use an electric trimmer instead.
- Question the need for heartburn drugs: These drugs increase the risk of intestinal infections and pneumonia, so consider stopping them before admission.
- Test for MRSA: Ask your surgeon to screen you for MRSA, a potentially deadly bacteria that are resistant to antibiotics.
- Watch for diarrhea: Get treated for C. diff if necessary.
- Quit smoking, even temporarily: You won’t be allowed to smoke in the hospital anyway, and stopping as long as possible beforehand cuts the risk of infection.
- Wash up the night before: Ask about taking precautions before entering the hospital, such as bathing with special soap or using antiseptic wipes.”

The Center for Disease Control estimates that health-care associated infections (HAIs) affect 5 to 10 percent of hospitalized patients in the U.S. per year. Approximately 1.7 million HAIs occur in U.S. hospitals each year, resulting in 99,000 deaths and an estimated \$20 billion in healthcare costs.

BY THE NUMBERS⁶

- The **yield on the 10-year Treasury** note closed at 1.36% on July 8, 2016, the lowest closing-yield ever for 10-year paper that started trading in 1790. Since July 8, the yield on the 10-year note has risen more than 1 percentage point to 2.55%.
- The **life expectancy** of a baby born in the US in 2015 is 78.8 years, a decline of 0.1 year, the statistic’s first year-over-year drop after 21 consecutive years of increases.
- The normal retirement age in 2017 to be eligible for full Social Security benefits is 66 years. 57% of men and 64% of women **take their benefits before they reach their normal retirement age.**
- The federal government **owns 28% of all the land** in the US, a total of 640 million acres.
- Historically, 33% of **college graduates** in the US that are employed are working in jobs that do not require a college degree (i.e., they are “underemployed”). As a result of the 2008 global financial crisis, the percentage of recent college graduates working in jobs that do not require a college degree has climbed to 44%.
- Every **individual physician** in the US supports ~14 jobs as a result of his/her medical practice.

Source: Direxion Funds (By the Numbers)



S.F. EHRLICH
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S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 20 years.

Did I mention? *If you have a friend or family member who you think might benefit from a discussion with John or I about financial planning and asset management, please pass along our phone number and e-mail address. Long-term growth is not only important 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 there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to our investment management services. In addition, a copy of our current Form ADV and Firm Brochure can be accessed on-line at www.sfehrlich.com.*

Footnotes:

¹ Donaldson, Scott J., et al. "Vanguard's Framework for Constructing Diversified Portfolios." Vanguard Research, Apr. 2013.

² Daryanani, Gobind. "Opportunistic Rebalancing: A New Paradigm for Wealth Managers." Journal of Financial Planning, Jan. 2008.

³ "Quantitative Analysis of Investor Behavior." Dalbar, 2016.

⁴ Dearing, Tony. "A Purpose-Driven Life Offers Surprising Protection against Alzheimer's." The Star Ledger, 24 Nov. 2016.

⁵ "15 Tips for Preventing Infections and Staying Safe in the Hospital." Consumer Reports, Jan. 2017.

⁶ "By The Numbers." Direxion ETFs & Funds, 14 Nov. 2016 through 19 Dec. 2016.

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