



Managing YOUR Money

STAN'S WORLD

My wife called it an afternoon activity, so we took a ride over to an age-restricted community about 6 or 7 minutes from our home. We're not looking to move, but the article in the real estate section said there were a few model homes to tour, so why not wander around?

We both thought the models were outstanding. They probably included every high-end upgrade the builder had to offer, along with furnishings that came from who-knows-where. They accomplished their goal; I walked in and could actually imagine living in that home, in that community. I had been seduced. (We were standing there picking out which model to purchase, with which options. Clearly, we were both seduced!)

When we walked back to the sales center, we had a discussion with the sales associate about which lots were available, how many homes were already sold, etc. She asked if our home was for sale, and we told her it wasn't because we had no plans to move.

She then told us "A lot of people buy a new home, and then list their home, because they don't want to miss the opportunity to select the model and the lot." Without missing a beat, Pearl looked at her and replied: "I'm married to a financial planner, and even I know that you never buy a new home without selling the old one." I nodded approvingly; my best student had just graduated with high honors.

Our home isn't for sale, and we're not moving to the other side of town, but upon reflection, it's easy to see how big mistakes are made. Whether it's a vacation home, time share, or a residential community, presentation and a good sales pitch can easily drive a consumer to leap into the abyss. Buying a new home without selling the old one can turn an emotional decision into financial suicide. I've been preaching that mantra for years, and will continue to do so for years to come.

Before you make a big ticket purchase, be it a car or something more grand, walk in with a plan and a budget, and check your emotions at the door. Take it from a planner who briefly came under the spell; it's easy to fall prey when you're seduced.





WHAT DOES THIS PRESIDENTIAL ELECTION MEAN TO YOUR INVESTMENTS?

With three months left until the presidential election, some investors want to know how the election will impact them personally. Will the stock market do better with one candidate vs the other? Do the odds favor a market move one way or the other under a Democratic or Republican administration? Good questions all, so MONEY Magazine sought to answer them using the only tool we have available: history.

- “Conventional wisdom says a President’s economic policies matter greatly to Wall Street. But...investors since the Great Depression have managed to make money in war and peace and under successful and failed administrations...Since World War II, stocks have gained under every President except Nixon and Bush 43.”
- “The fact is, stocks generally rise over time no matter who’s in charge...After the silly season is over on Nov. 8, about half the country will be elated, and nearly half will be scared. And both groups, research shows, are likely to tweak their investments accordingly. Then when things really get risky.”
- “People take greater market risks when their party controls Washington.” Conversely, “investors affiliated with the party out of power tend to grow restless and trade securities more frequently.”
- “Ford and Bush 41 were the best GOP presidents for stocks. Both were voted out of office.”
- “Among elected presidents since the Depression, Johnson and Carter were best for small-company stocks.”

To successfully navigate this election year (and beyond), MONEY suggests that investors adopt these “two planks” in their investing platform:

- The current bull market is more than seven years old, which means that the market will eventually correct, regardless of who wins. Keep your partisan emotions in check and stay invested; it’s the smartest move an investor can make.
- “People take greater market risks when their party controls Washington.” Conversely, “investors affiliated with the party out of power tend to grow restless and trade securities more frequently.” Don’t do either.

BY THE NUMBERS

- **Social Security** trustees announced that the trust fund backing the payment of Social Security benefits would fall to zero in 2035. A zero trust fund doesn’t mean the payment of Social Security benefits would also go to zero, but they would drop to 77% of their originally promised levels through the year 2090. When the trustees released their report in 2007, they projected the Social Security Trust Fund wouldn’t be depleted until 2042.
- Between 1991 and 2009, the percentage of **Medicare** beneficiaries that smoked was almost cut in half while the percentage of Medicare beneficiaries considered obese nearly doubled. The smoker percentage dropped from 15% to 9%, while the obesity percentage rose from 13% to 25%.
- The percentage of American workers doing some or all of their **work at home** increased to 24% in 2015 from 19% in 2003.
- **Oil reserves** in the US (defined as recoverable oil from existing fields, future discoveries, and as yet undiscovered areas) are projected to be 264 billion barrels. This is the most in the world, ahead of Russia (256 billion barrels) and Saudi Arabia (212 billion barrels).
- Half of the 60,222 **airline pilots** flying for the 12 largest US employers of pilots will turn 65 years old within the next 10 years. The mandatory retirement age for airline captains is 65.



THINK TWICE BEFORE CO-SIGNING A LOAN

There are a lot of pitfalls on the path toward a successful retirement. Some risks can be minimized with proper planning (i.e. trying to accurately project future living expenses), while others can be addressed with insurance products (i.e. long-term care). In some instances, however, the damage is self-inflicted. One glaring example: providing financial assistance to adult children.

Some expenses may be considered incidental, such as helping to outfit a nursery for a baby, or paying for a grandchild to go to summer camp. The situations that can lead to the ultimate failure of a financial plan are often far more significant, like when a grandparent assumes the responsibility to pay a grandchild's college tuition, or agrees to co-sign a loan for a family member or friend. We all want to do good for our family, but it shouldn't be at the expense of a successful retirement.

The Star Ledger reports that:

"The chances of co-signers losing money or suffering a spoiled relationship are high, according to a recent report by CreditCards.com...The company found 38 percent of co-signers had to pay some or all of the bill because the primary borrower did not; 28 percent experienced a drop in their credit score because the other person paid late or not at all; and 26 percent said the experience created bad blood in their relationship with the person they co-signed for."

"...about one in six US adults have cosigned a loan or credit card for someone else. Auto loans accounted for 53 percent of all co-signing. Personal loans (24 percent), student loans (19 percent) and credit cards (16 percent) followed."

If a relative, to include a child or grandchild, comes to you and asks you to co-sign a loan, my advice is to think long and hard before the 'emotional you' grabs a pen. Logic dictates that your relative has come to you because his/her credit is in disrepair. If that's accurate – and let's assume it is – what's the odds their ability to pay will improve once your name is added to the loan document? Agreeing to ultimately assume liability for their debt won't change their spending, their lifestyle, or their current cash flow situation. The only thing you have that can immediately help their situation, is money. Unfortunately, once you pay it, the odds are you'll never see it again.

BY THE NUMBERS

- Before closing at an all-time high on July 11, 2016, the **S&P 500** had gone 285 trading days since its last record close on May 21, 2015.
- The **unemployment rate** for the 19 nations that use the **Euro** as their primary currency was 10.1% as of May 31, 2016, the lowest level in the Eurozone since July 31, 2011. The unemployment rate in the US is 4.9%.
- The medium square footage of new **single family homes** built in the US in 2015 was 2,467 square feet, an increase of 547 square feet over the last 20 years. (That's equivalent to a 23 x 23 addition when compared to 1995 new home construction.)
- There are 118 million households in the US split between 82 million family households and 26 million households that are occupied by one person living alone or by a group of unrelated people. Of the 82 million family households, 5 million are **multi-generational families** (i.e. households consisting of 2 or more generations living together).
- The total return of **stocks** (as measured by the S&P 500) and the total return of **bonds** (as measured by the Barclays Aggregate Bond Index) haven't both been **negative** in the same year for the past 40 years.
- **Millennials** are adults aged 19-35 in 2016, and Baby Boomers are adults born from 1946-1964.



BY THE NUMBERS (CONT'D)

- The number of **Millennials eligible to vote** in the November 2016 election (69.2 million) is just under the number of Baby Boomers eligible to vote (69.7 million). Millennials are adults aged 19-35 in 2016, and Baby Boomers are adults born from 1946-1964.
- The **top 5% of US taxpayers** paid more in federal incomes taxes (\$721 billion) than the bottom 95% of US taxpayers (\$511 billion) for the 2013 tax year.
- A dual working couple in America making a combined \$95,600 that turned 65 years old in 2015 is projected to receive \$422,000 in **Medicare benefits** over their lifetime, or three times the \$140,000 they paid in Medicare payroll taxes during their working years.
- A dual working couple in America making a combined \$95,600 that turned 65 years old in 2015 is projected to receive \$616,000 in **Social Security** benefits over their lifetime, or 13% more than the \$543,000 they paid in Social Security taxes during their working years.
- The trust fund backing **Social Security** retirement benefits took in payroll tax contributions that exceeded retirement benefit payments made to retirees for the 26 consecutive years of 1984-2009. Since 2010, benefits paid have exceeded payroll taxes collected. In 2015, covered workers paid in \$679.5 billion of payroll taxes, but retirees received \$742.9 billion of benefit payments.
- There are **2.8 workers paying payroll taxes for every one Social Security beneficiary** in 2016, or 36 Social Security beneficiaries for every 100 workers. There will be an estimated 2.3 workers paying payroll taxes for every one Social Security beneficiary in 2030, or 44 Social Security beneficiaries for every 100 workers.
- Eight years ago, the Euro peaked at \$1.6038. At the end of July 2016, it was \$1.1175. A **weak Euro** (i.e. a strong dollar) has a negative impact on US exporters, since it makes exports more costly to foreign buyers. Foreign sales account for 46% of the revenue of the average S&P 500 company.
- In the last 50 years (1966-2015), the S&P 500 has been up 18.3% per year under a **Democratic president and a Republican-led Congress**, four times the 4.5% annual return achieved under a Republican president and a Congress controlled by the Democrats.
- The S&P 500 gained 11.9% per year when the **White House and Congress were controlled by the same political party**. When the House and the Senate were controlled by different parties, regardless of which party controlled the White House, the S&P 500 has been up an average of 9.2% per year.
- Americans **spent** \$3.63 billion less at **gas stations** in June 2016 when compared to June 2015, but they spent \$2.55 billion more at **restaurants and bars** in June 2016 than in June 2015.
- There were 7.77 million **out-of-work Americans** as of July 31, 2016. There were 14.60 million out-of-work Americans as of July 31, 2009.
- As of August 1, 2016, only **three banks have failed** year-to-date in the US, the fewest number of bank failures as of August 1st in any calendar year since 2007. at least 50% of their pre-tax income on their housing costs.

Source: Direxion Funds (By the Numbers)



S.F. EHRLICH
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Did we 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.*

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