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ASSOCIATES, INC.

November 15, 2016

# Managing YOUR Money

## STAN'S WORLD

I know many people who would agree that deciding where to retire was one of the most difficult decisions they ever made. It's made even more challenging by the tug of friends or relatives who tout where they live, or magazine covers that loudly blare "The Best Retirement Places in America." (More on those later because, well, some of them sound really good so I felt obliged to include a few.)

Over the years, I've observed soon-to-be-retirees consider such factors as weather, proximity to family and friends, quality of medical care, affordability, taxes, social life, culture, et al when deciding where or even whether to go. Each of us has different interests and needs, so a few items on the list above are probably more important to some, less so to others.

When Pearl and I moved to Westfield 10 years ago, our considerations were fairly simple: a train line to Manhattan, flat ground for biking, a downtown, and a relatively easy commuting distance to the school where Pearl taught. After driving to virtually every town within a certain radius of the school where Pearl worked, we settled on Westfield. We clearly defined our needs, had a limited area to survey, and then made a decision. Admittedly, we got off relatively easy.

We didn't make the decision to retire in Westfield, only to move to Westfield, and I concede that's a significant difference. From the time I first suggested we move until the date we actually relocated was about three years, so even in-state relocations can be difficult.

I bring up the subject of relocation because I've watched countless people struggle with deciding where to retire, and sometimes that struggle can last for years. Ultimately, not making a decision to relocate is a decision. (As Jerry Seinfeld would say: "Not that there's anything wrong with that.") Retirement doesn't mean one has to relocate, only that the opportunity to do may present itself.



While aging in place is a goal for many, the caveat is that seniors should live where they can safely age. If a bedroom is on the second floor, life is fine until a hip or knee replacement occurs, or until balance becomes an issue and stairs become too problematic to use. If someone waits too long to realize that they can't age in place, the finances of relocation might then prevent the option to move, potentially resulting in a series of bad decisions to somehow make things work. The old adage in carpentry is measure twice and cut once, and it's important that one exercise the same caution prior to declaring they've found the perfect place, and it's their current home. Who's going to change the light bulbs? Will the local super market deliver? How will you get to a doctor when you can no longer drive? (And yes, the day will come when it will be unsafe to drive.)

To those retirees who are happy and safe where they reside, I tip my cap to you. For the restless among the rest of you, here are some more "Best Places to Retire" for you to ponder. The cities below are a compilation of two lists from MONEY Magazine: Best Places to Retire, and The 50 Best Places to Live in America. There's no doubt there are a lot of happy retirees who live in places that aren't on any list, but here are a few locations in case you're seeking more options. Happy hunting!

**A dozen cities with top-notch services, plenty to do, and a tax-friendly climate:**

- |                 |                   |                  |                |
|-----------------|-------------------|------------------|----------------|
| • Bethlehem, PA | • Greenville, SC  | • Iowa City, IA  | • Santa Fe, NM |
| • Nashua, NH    | • Sugar Land, TX  | • Rapid City, SD | • Spokane, WA  |
| • Hollywood, FL | • Chattanooga, TN | • Reno, NV       | • Bend, OR     |

**The top 10 of the 50 Best Places to Live in America:**

- |                    |                       |                  |                  |
|--------------------|-----------------------|------------------|------------------|
| • Columbia, MD     | • W. Des Moines, IA   | • Clarkstown, NY | • Naperville, IL |
| • Eden Prairie, MN | • Parsippany, NJ      | • Weston, FL     |                  |
| • Plano, TX        | • Highlands Ranch, CO | • Beaverton, OR  |                  |

**The Best Big Cities:**

- |                |                        |
|----------------|------------------------|
| • Boston, MA   | • Arlington, TX        |
| • Raleigh, NC  | • Colorado Springs, CO |
| • Columbus, OH | • Portland, OR         |

**America's Best Small Cities (East Coast emphasis):**

- |                     |                   |                  |                  |
|---------------------|-------------------|------------------|------------------|
| • West Hartford, CT | • Cherry Hill, NJ | • Oyster Bay, NY | • Hamden, CT     |
| • Edison, NJ        | • Hunter Mill, VA | • Wellington, FL | • Levittown, PA  |
| • Ashburn, VA       | • Newton, MA      | • Cary, NC       | • Huntington, NY |



## RECESSION ON THE WAY! WELL, MAYBE NOT YET...

There are four stages to an economic cycle, and the only certainty is they repeat – over and over and over: expansion, peak, contraction, and trough. If you're an investor, trying to time when each phase starts and finishes is often an exercise in futility. When stages start and finish is often a determination that is made long after each phase concludes.

If you look at historical charts, it's easy to look back and see when you should have invested and when you should have sold, but that's not the reality when you're in the moment. It often turns into guess work, which is why financial planners like us recommend you stay invested and not try to time when cycles will start and finish.

We're in the 8th year of the current expansion, and it does have to end sometime. But according to the Wall Street Journal, don't start the clock ticking for the next recession.

The Journal cites a professor from Johns Hopkins who points out that what kills expansions isn't their age, but "excesses like an overheated job market, overinvestment, and unmanageable debt and asset bubbles. None of those are present now in ways that could cause a slowdown."

Further, "...wage gains have been much weaker than they have been before economic downturns (and) ... spending by consumers and businesses isn't signaling a recession."

"The household debt-service ratio - how much after-tax income Americans are devoting to debt payment – stood at 10% in the second quarter...near its lowest level in the 36 years of available data."

In other words, we appear to be missing the excesses often prevalent when expansions end. While this time may or may not be different, it appears that it may have a little more room to run.

*"It's easy to look back and see when you should have invested and when you should have sold, but that's not the reality when you're in the moment. It often turns into guess work, which is why financial planners like us recommend **you stay invested and not try to time when cycles will start and finish.**"*

## BY THE NUMBERS

- Over the last 25 years, the **S&P 500 index** has gained an average of 5.1% (total return) over the final 3 months of the year. 20 of the last 25 quarters have produced a positive total return.
- It was a little more than 8 years ago that **Warren Buffett** wrote his "Buy America, I am" op-ed article in the New York Times. Buffett encouraged investors "to be fearful when others are greedy, and be greedy when others are fearful." Buffett's letter was released less than 5 months before the stock market bottomed on March 9, 2009, ending a 57% decline of the S&P 500.
- The 410,298 **tax returns** from the tax year 2014 that reported at least \$1 million of adjusted gross income represent 0.28% of all returns filed. They also represent 14% of all adjusted gross income nationwide and 27.6% of all the federal income tax that was paid in 2014.
- 54.4% of the American taxpayers (50.4 million out of 92.7 million returns) that reported adjusted gross income of less than \$50,000 during tax year 2014 **legally did not pay any federal income tax.**
- Of the 10 highest paying **bachelor degrees by salary** potential for college graduates, 9 were engineering degrees, to include petroleum engineering and systems engineering.



## SPEAKING OF TIMING RECESSIONS

Coupled with the idea that an investor or money manager can successfully time business cycles is the notion that active stock managers can repeatedly pick winning stocks.

I won't say that timing of any sort has been analyzed to death, but it certainly has been analyzed a lot. Timing, of course, is the belief that someone can predict when events will occur, such as a recession or market recovery. Along those same lines is the often mis-guided belief that some mutual fund managers can successfully choose which stocks will perform better than their peers in the markets. Both timing and active management have been refuted countless times over the years.

Let's add to that body of work a recent analysis by Dimensional Funds (DFA), the mutual fund company whose funds we often buy for clients. Their approach to

passive stock management is influenced by two Nobel Prize-winning economists, whose research has shown that you can take passive management and improve upon its returns by looking at such factors as size, value, and profitability when analyzing individual companies.

Their most recent research once again validates the argument that passive management outperforms active. In fact, fees alone can tilt performance against actively managed funds, because managers charge hefty fees in their attempt to outperform the market.

The next time you read an article about a hot-shot mutual fund manager, think back to this analogy from DFA: "If we ask 5,000 people to repeatedly flip a coin, we would expect about five of them to flip 10 heads in a row, just by chance. Upon observing this result, we would not conclude that we have found five very skilled coin flippers."

*Passive vs. Active Fund  
Management: The debate rages  
on but research continues to  
support only one side of the  
argument*

## BY THE NUMBERS

- 16% of the **American labor force** was born outside of the United States.
- The US **economy has been growing** for the last 88 months (i.e. no recession), an expansion exceeded in length only 3 times since 1900.
- After peaking at 1.562 million in 2010, **personal bankruptcies** (either Chapter 7 or Chapter 13) are on pace to decline on a year-over-year basis for the 6th consecutive year in 2016. Through September 30, 2016, just 593,000 Americans have filed for bankruptcy protection year-to-date.
- 24% of the **petroleum** consumed by the US in 2015 (including crude oil, gasoline and diesel fuel) was imported from foreign countries. That represents the lowest import percentage since 1970.
- America's spending on "**National Defense**" (stated as a percentage of total government outlays) has fallen from 43.2% in fiscal year 1966 to 15.5% in fiscal year 2016.
- Beginning in 1975, adjustments to **Social Security** retirement benefits for the following year have been pegged to changes in the Consumer Price Index (CPI). Limited national inflation has resulted in no "cost-of-living adjustment" (COLA) to retirement benefits just 3 times since 1975 (i.e. 2010, 2011, and 2016). The COLA boost for 2017 will be 0.3%.



## 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.

## HOW TO AVOID AN UNPLEASANT TAX SURPRISE IN APRIL

If you have an accountant who regularly prepares your tax returns, this is the time to contact him/her to do a little end-of-year tax planning. The benefits can be significant, and the cost is probably minimal.

First, if your accountant calculates that you might have to pay taxes in April, you might be able to pre-pay some tax-deductible expenses prior to year-end to help reduce your 2016 tax burden (i.e. property taxes, medical bills, etc).

Second, if you're older than 59½ and you have reduced income this year, you may be able to take a withdrawal from your IRA or complete a ROTH conversion, either of which might be taxed at a favorable tax rate. Considering that you probably deferred income into your IRA or company 401k plan when you were in a higher marginal tax rate, withdrawing funds when you're in a lower tax bracket is very desirable.

Due to mutual fund distributions and dividends that are paid in December, tax projections are never exact. Regardless, knowing where you stand can help you make appropriate tax decisions while there's still time to be proactive.

If you're going to visit your accountant, we'll be happy to provide year-to-date income and capital gains information from your taxable accounts at Charles Schwab. Tell us when you're going, and we'll send along up-to-date information.

## BY THE NUMBERS

- 68% of American workers receive paid sick leave, 73% receive paid **vacation**, and 75% receive paid holidays.
- The federal **estate tax exemption** is estimated to increase from \$5.45 million (per decedent) in 2016 to \$5.5 million as of January 1, 2017. That means a married couple would be able to shelter \$11 million from federal estate and gift taxes.
- Until last week, the yield on the **10-year Treasury note** had closed below 2% for more than 200 days, the longest stretch below 2% in the history of the nation. 10-year notes have been traded since 1790, or 226 years.
- 32% of American adults 25 or older graduated from college with at least a **bachelor's degree** (i.e. 68% of American adults did not graduate from college).
- The legalization of **recreational marijuana** is currently legal in 4 states (Colorado, Washington, Oregon, and Alaska plus the District of Columbia. 4 additional states (California, Maine, Massachusetts and Nevada) approved ballot initiatives on November 8, which means approximately 22% of US citizens will live in a state where recreational marijuana usage is legal.

Source: Direxion Funds (By the Numbers)





S.F. EHRLICH  
ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc.  
has been providing finan-  
cial 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](http://www.sfehrlich.com).

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