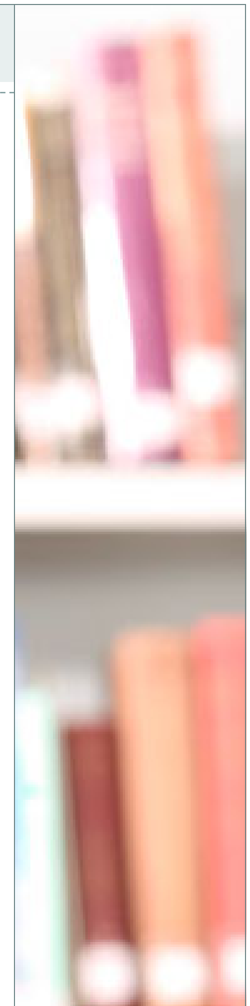


S.F. EHRLICH ASSOCIATES, INC.

September 30, 2025

Managing Your Money

STAN'S WORLD — AGING IS NOT FOR THE FAINT OF HEART

When seniors make the decision to move into a senior community, they do so with the hope and expectation that they have made the right choice. Select the wrong community, and the golden years may feel somewhat less than golden.

Over the past year or so, John and I have spoken with a few clients who are considering a move to senior housing for themselves or a family member. Based on my personal experience dealing with my own family members, along with lessons passed on to us by clients who have gone through this journey, I am now in a position to share some of what we've learned.

Let's start with terminology, as there is often confusion about what to call senior housing. The most all-encompassing type of senior housing is a continuing care retirement community (or CCRC). A CCRC is a community that offers a continuum of care, ranging from independent living to assisted living, including memory and nursing care. A true benefit of a CCRC community is that virtually all the care an individual may require while aging takes place on one campus, allowing residents to transition from one level of care to the next with minimal upheaval.

Most residents in a continuing care community live in independent living, where they live self-sufficiently in their own apartments. But independent living in a CCRC should not be confused with communities that only offer independent living, with no continuum of care. Residents of communities that only offer independent living would have to move off-site if they required assisted living or other advanced care services.

Some communities are specifically focused on providing only assisted living services, and those communities are also likely to offer memory and nursing care. For seniors who are mostly self-sufficient and can live independently, an assisted living community may not be the most suitable housing option.

Costs are a very significant issue when deciding whether to move into a continuing care community and which community to select. For a CCRC, there is likely a large, up-front payment, also known as an entrance fee, followed by monthly payments to cover ongoing costs. In return, residents receive a lot.

STAN'S WORLD — AGING IS NOT FOR THE FAINT OF HEART (CONT'D)

As an example, I'll use Cedar Crest Village (Pompton Plains, NJ), a CCRC where my mother lived for 10 years. (This is not an endorsement of Erickson Communities, which owns Cedar Crest. I'm just using Cedar Crest because I know it relatively well.)

Entrance fees at Cedar Crest vary based on the size of the apartment selected. For a two-bedroom, one-and-a-half-bath apartment, the entrance fee ranges from $340,000 - $527,000. The size of apartments varies. If a resident were to leave (or die), the resident (or his/her heirs) would receive 90% of the entrance fee. (Residents can't buy and sell housing units on their own. Sales are handled through the CCRC.)

In addition, the monthly cost for the first person living in the above unit is $3,890 to $4,137, with the second resident paying an additional $1,432/month. These costs include a monthly meal plan at all restaurants, utilities and maintenance, heating and cooling, social programming, 24-hour security, use of the swimming pool and gym, property taxes, access to the medical center, and other related expenses.

With more than 2,000 residents, there is so much programming at Cedar Crest that they broadcast the schedule on their own TV channel, thus reaffirming one of the arguments I often make to clients who are considering a move to a CCRC: move in when you're healthy enough to enjoy and take advantage of all the community has to offer.

Before moving into a CCRC, or any senior housing community, it's essential to determine if the CCRC is financially stable. Are their audited financial reports available for you, or your representative, to review? Does state law cover what would happen to you (and your entrance fee) if the CCRC were to go bankrupt? Who are the true owners of the CCRC, and what do their financials look like?

Another critical question to ask if you visit a CCRC: what happens if a resident runs out of money? At Cedar Crest, when a resident outlives his/her finances, the monthly payment will then be deducted from the entrance fee, meaning the resident (or his/her heirs) will receive that much less when the unit is vacated. Should a resident deplete their personal assets and spend down their entrance fee, Cedar Crest would use Medicaid and any other resident monthly cash flow (i.e., Social Security, pension) to keep the resident on-site.

Cedar Crest does not move people out of the community when they can no longer pay, and that's a really big deal. In contrast, my wife's mother lived in a nursing home that didn't accept Medicaid. If she had exhausted her resources, the nursing home would have moved her to a facility that accepted Medicaid.

You may wonder how an individual or couple with a few million dollars can outlive their assets while living in a CCRC or any other senior housing. Unfortunately, that math is easy to follow.

STAN'S WORLD — AGING IS NOT FOR THE FAINT OF HEART (CONT'D)

If someone can no longer live independently and requires additional care, moving into assisted living is an option to care at home. Monthly costs for an apartment in an assisted living community can easily range from $10,000 - $12,000. If that person requires a personal home care aide in addition to the aides provided by the assisted living community, the cost ranges from $25-$35/hour. Using $30/hour as an example, a personal home-care aide working 8 hours/day would cost 8 hours/day x 7 days/week x 52 weeks/year x $30/hour = $87,360/year. If we further assume the monthly cost in an assisted living community is an additional $11,000/month, that's an additional $132,000/year. Adding $132,000 + $87,360 = $219,360/year. Unfortunately, math class isn't over.

If you're a couple with one partner who is healthy while the other partner requires assistance, you must add housing and other living costs for the healthy partner to the cost of care for the partner who requires assistance. If you add those two expenses, the total becomes staggering. And that's just for one year!

There are a few planning techniques that seniors may consider to protect their assets. If we haven't already done so, we're happy to discuss them with you or refer you to an attorney who specializes in elder care planning.

As the actress Mae West may (or may not) have said: "Aging is not for the faint of heart."

FUN WITH CHARTS

Will the Magnificent 7 Stay on Top?

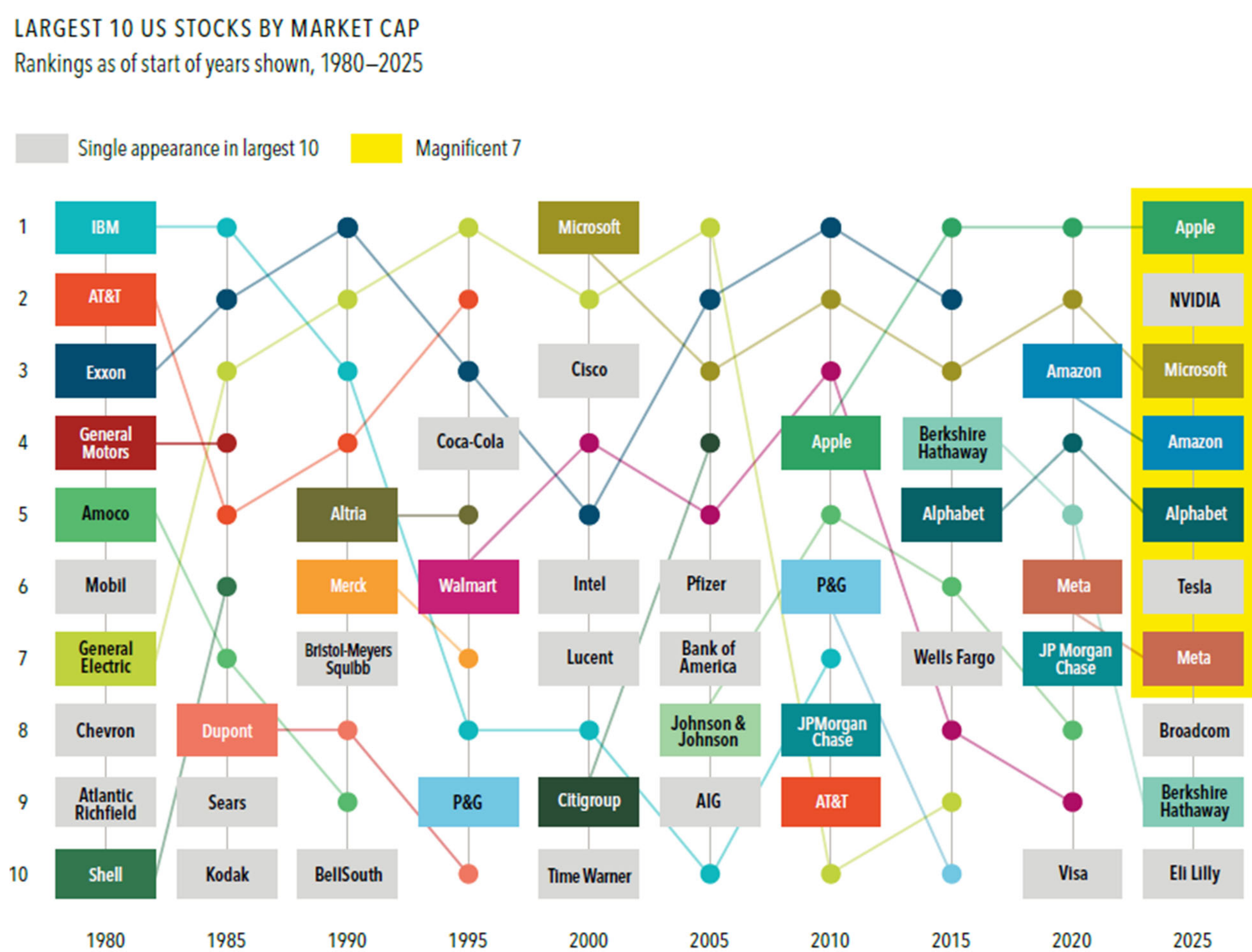
Over the past few years, the performance of seven stocks (i.e., The Magnificent 7) has resulted in outsized market performance, billions of investment dollars, and an extraordinary amount of publicity. Those seven stocks – Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla – are among the 10 largest US stocks. But will they stay there in the years to come?

The following chart, from Dimensional Funds[1], shows the 10 largest US stocks – as measured by market capitalization – over the period 1980-2025. And there are important lessons to be learned:

- "…only three of the 10 biggest companies from 1980 made the 2000 list – and none of them were in 2025's Top 10.
- "Industries ebb and flow. Technology-focused firms currently dominate the list. But in 1980, six of the 10 largest companies were in the energy sector."
- "New technology doesn't benefit only tech firms. Throughout history, companies across industries have used technology to innovate and grow."

FUN WITH CHARTS (CONT'D)

Will the Magnificent 7 Stay on Top?



If you're of a certain age, look at the names of some of the companies we grew up with back in 1980. Look at the companies that exited the Top 10 list (or were altogether eliminated) over time, such as Sears, Kodak, Time Warner, AIG, and Lucent. The lesson: while you can make money investing in Magnificent 7, or Top 10 stocks, those investments still require monitoring.

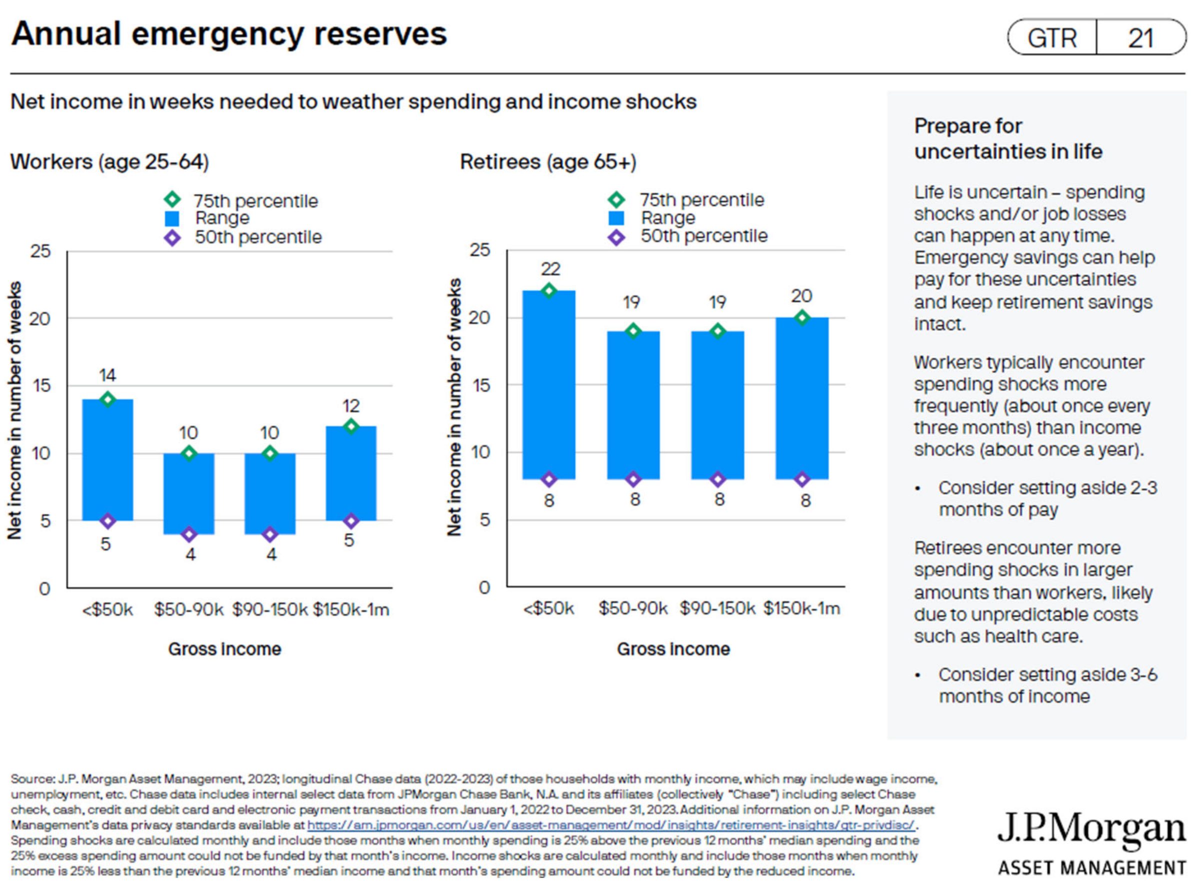
As to the companies that will comprise future lists of the largest US stocks, Dimensional reaches a conclusion we've supported for 30 years: "Diversification enables investors to share in the success of today's top companies while staying positioned to benefit from tomorrow's market leaders."

FUN WITH CHARTS (CONT'D)

Emergency Reserves: How Much Is Enough?

One question we're often asked by clients, to include young, old, retired, and everyone in between, is how much cash you should set aside in the event of an emergency. While there is no 'right' answer that fits all sizes, JP Morgan[2] offers a chart to support their recommendations.

In terms of definition, emergency reserves are funds specifically allocated to cover either an unexpected income shortfall or an unexpected expense. They are not dollars invested for long-term appreciation and do not include funds allocated for a specific purpose (e.g., college tuition, car purchase, etc.). Rather, emergency reserves are dollars set aside for the sole purpose of an unexpected or emergency event. Whether you're employed or retired, the risk of an income or spending shock is ever-present. (The difference between an income shock and a spending shock is what the terms imply. An income shock refers to unexpectedly earning fewer dollars, such as may occur when a job is downsized or a bonus doesn't come through. In contrast, a spending shock refers to an unexpected expense, such as a medical bill, car repair, expense for a relative, etc.)



FUN WITH CHARTS (CONT'D)

As a starting point, note the recommendations for workers (age 25-64) and retirees (age 65+) in terms of emergency reserves to prepare you for the uncertainties in life:

"Workers typically encounter spending shocks more frequently (about once every three months) than income shocks (about once a year). Consider setting aside 2-3 months of net pay.

"Retirees encounter more spending shocks in larger amounts than workers, likely due to unpredictable costs such as health care. Consider setting aside 3-6 months of income."

STAYING THE COURSE DOES NOT MEAN SET IT AND FORGET IT

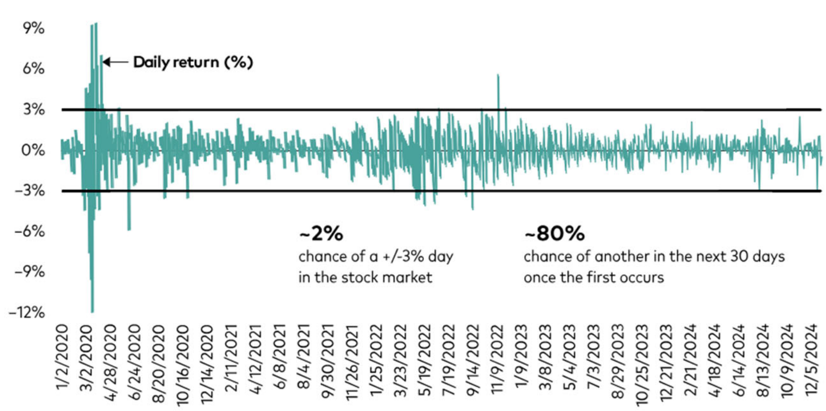
It's the rare investor who doesn't want to flee to safety during extreme market upheaval, and it's difficult to argue with their reasoning: (a) retaining as much of their remaining assets as possible, and (b) retaining the ability to jump back into the markets when they stabilize.

Unfortunately, however, fleeing the market and then returning at some 'safer' future date are the hallmarks of market timing. While selling assets and moving to safety may make an investor feel better, these actions may also cause investors to miss some of the best days the market has to offer, because the best and worst days often occur together.

As noted by a recent Vanguard[3] article, "Stock market volatility can feel unnerving, but history has shown that some of the best days in the market often follow bad ones, as seen in Figure 1. The practical effect is that the market moves too quickly and unpredictably for someone to trade large portfolio positions in and out effectively. One could easily mis-time big market moves, and the transaction costs of attempting to keep pace with them would be significant."

Figure 1: The best and worst days tend to cluster close together

S&P 500 Index daily price returns January 1, 2020, through December 31, 2024



Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

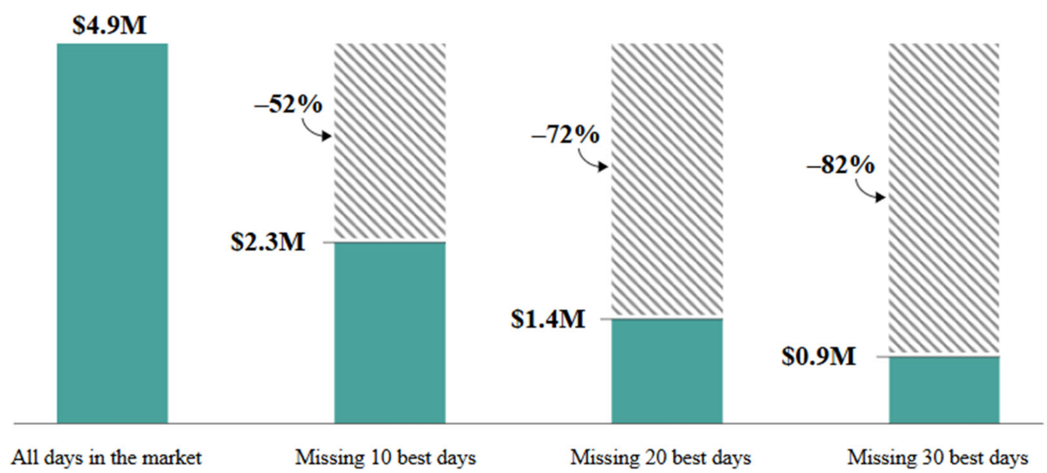
Source: Vanguard Investment Advisory Research Center calculations using FactSet data. Data through December 31, 2024. Data series for ~2% and ~80% statistics covers January 1, 1980, through December 31, 2024.

STAYING THE COURSE DOES NOT MEAN SET IT AND FORGET IT (CONT'D)

"Further, the effects of missing strong recovery days compound over time. Figure 2 provides a compelling example of what this can look like for a client portfolio. Given a hypothetical $100,000 portfolio tracking the S&P 500 Index (starting in 1988), we can see the portfolio's 2024 value if that money remained invested the entire time ($4.9 million), if it were out of the market for 10 of the best-performing days ($2.3 million), if it had missed 20 of the best days ($1.4 million), and if it were out of the market for 30 of the best days ($0.9 million)."

Figure 2: Missing the best days of the market, which often cluster around the worst days, can be costly

S&P 500 Index, total returns of $100,000 investment, 1988–2024



Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: Vanguard Investment Advisory Research Center calculated using data from Standard & Poor's As of December 31, 2024.

Note: Return percentage calculated over a 37-year period: 11.1% = all days in the market, 8.9% = missing 10 best days, 7.3% = missing 20 best days, 6.0% = missing 30 best days.

STAYING THE COURSE DOES NOT MEAN SET IT AND FORGET IT (CONT'D)

As can be seen, the data is too compelling to ignore. The difference between staying in the market and missing the 30 best days is a staggering 82%, a portfolio difference that can ruin almost any retirement plan.

But, as the authors note, "Staying the course is often mistaken for buy and hold or set it and forget it, both of which are passive strategies, but it often means the opposite." But when a portfolio deviates from its plan, changes should be made. To keep a portfolio on its desired course, changes will occasionally need to be made. In that instance, rebalancing would be a step in the right direction.

Even rebalancing, however, can be an "emotional challenge." It's often difficult for many investors to rebalance from winning asset classes to lesser-performing classes. While investors may not be able to sell when market momentum is going in their direction, that's exactly when rebalancing should occur. Difficult; yes. Necessary; yes. Being in the market doesn't mean changes aren't occasionally required.

Similarly, as we get older, and if portfolios grow, risk tolerances may change. There may be opportunities to reduce risk, thus moving assets from the higher volatility side of a portfolio (i.e., stocks) and moving them to the less volatile side (i.e., bonds). Staying the course doesn't mean setting investment allocations in stone.

Despite all the reasons why an investor may feel compelled to sell and run to safety during tumultuous times, it's of utmost importance not to "interrupt the power of compounding" and stay invested. Investing for the long term takes courage, commitment, and, quite often, a strong constitution. Keeping an eye on the long-term goal – a successful retirement – will ultimately make it all worthwhile.

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.

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[1] "Dimensional Funds, "Will the Magnificent 7 Stay on Top?", 2025
[2] "Annual Emergency Reserves," Slide 21, Guide to Retirement, J.P. Morgan. 2025.
[3] Kinniry Jr., Francis, et al., "Staying the Course Does Not Mean Set It and Forget It," Vanguard, 17 Apr. 2025.

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