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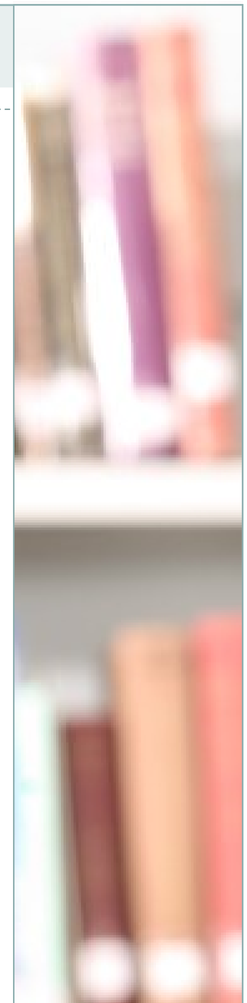

Managing YOUR Money

STAN'S WORLD

An article in the New York Times[1] titled "Probably a Bad Idea to Sell Just Because You Fear Trump" reminded me of a piece in MONEY Magazine that I referred to last summer. That article questioned how the election might impact your investments, and included two comments worth repeating:

- "People take greater risks when their party controls Washington." Conversely, "investors affiliated with the party out of power tend to grow restless and trade securities more frequently."
- "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. That's when things really get risky."

The fact that the stock market has been melting up (as opposed to melting down) has surprised many, but it's important to reiterate why the stock market moves at all. Yes, emotion plays a part in daily moves, but for the long haul, corporate profits (or the lack thereof) will dictate overall performance. In its simplest terms, investors will pay more for a company if its profits go up, or if they believe its profits will increase.

High share prices and fears of an erratic president don't mean the markets have to fall, even if you fear that will happen. But as the article in the Times points out, it's easy to be blinded by your personal opinions. Take a minute to look under the hood to get a sense as to what's moving this market, and whether the bull might continue to run.

Notes the Times: "It's very likely there will be corporate tax cuts and deregulation, both of which benefit companies' bottom lines in a pretty direct and measurable way. It is optimism about those policy priorities that has driven the market rally since Election Day. Throw in some extra government spending on the military and public infrastructure, and you have a recipe for speedier growth."

STAN'S WORLD (CONT'D)

But the Times also points out the "darker possibilities," to include "a trade war that could turn into a global recession," or a "small crisis could spiral into something bigger…"

> *Regardless of whether or not 'your' candidate won or lost, if you're nervous about Washington, that shouldn't translate into any dramatic shifts in your approach to investments.*

For those who expected volatility in Washington to translate into volatility on Wall Street, it's also interesting to note that the stock market has gone almost 90 sessions without a single daily decline of 1% or more. Barrons' points out that hasn't happened since 2006, and before that, 1995[2].

Regardless of whether or not 'your' candidate won or lost, if you're nervous about Washington, that shouldn't translate into any dramatic shifts in your approach to investments. Diversified portfolios are built with the goal of weathering storms over the short term. Diversification includes lower volatility investments, such as short-terms bond funds, for those investors who don't have the time to wait for their portfolios to fully recover after a steep drop in the equities markets. And periodic rebalancing aims to keep your equity to bond mix in check whether the markets go up or down.

Nobody can ever say that what happens in Washington won't have an impact on your stock investments, but the market's long history teaches us that any impact has been relatively short-lived compared to the lengthy time frame for the equity portion of your portfolio.

BY THE NUMBERS[6]

- **The S&P 500 has gained an average of 10.2% (total return) over the last 50 years.** The index has also been positive over the last 8 years (9 years in a row is the all-time record), 13 of the last 14 calendar years, and 40 of the last 50 years.
- The **split between up and down trading days** for the S&P 500 over the last 50 years is 53% up and 47% down. The split during calendar year 2016 was 52/48.
- The total return for the **S&P 500 was a gain of 12.0% in 2016**. If you missed the three days with the best percentage gain last year, the 12.0% falls to a gain of 4.4%.
- If you were able to **avoid the three worst percentage days** in 2016, the 12.0% gain rises to a gain of 22.1%.
- The average interest rate nationwide on a **30-year fixed rate mortgage** was **4.32%** as of 12/31/16. The record low national average was 3.31% as of 11/22/12.
- The **yield on the 10-year Treasury note** ended 2016 at **2.44%**, just 0.17 percentage points higher than the 2.27% it finished one year earlier.

SHOULD YOU CARE ABOUT THE FIDUCIARY RULE?

We haven't devoted much space in these pages to a discussion about the fiduciary rule, primarily because John and I are fiduciaries. In brief, a fiduciary is a professional who provides financial advice in the best interest of their clients. A fiduciary can never recommend a service or product knowing that it's not necessarily the best fit for their client's individual needs. In fact, the professional organization that John and I belong to dictates that a requirement of membership is that we are fee-only planners, who don't receive any other income (i.e., sales commissions).

Unfortunately, while being a fiduciary is the standard for registered investment advisors, it's not the industry standard. Many brokers and other finance professionals are salespeople in disguise, putting the interest of their firms, or themselves, first. That sets up a potential conflict of interest when it comes to dealing with clients. Brokers may recommend products that pay them the most in commissions and incentives (think travel junkets) as long as the product is suitable for their client. Suitable is not exactly the same thing as working for your client's best interests.

I recall a story by a fellow fee-only financial planner who used to work for a national brokerage firm. He told me that when he worked there, all representatives were expected to push the firm's insurance products (i.e., annuities) whether or not it was the best fit for their clients needs. He also said that was when he realized that his integrity dictated that he quit, and he did.

Last year, the Department of Labor imposed a fiduciary rule on the entire industry, to go into effect in April 2017. Yes, the large brokerage firms cried foul, because decades of doing business the same way were about to be upended. They begrudgingly complied, however, because they had no choice. Or do they?

John Bogle, the founder of Vanguard, wrote an op-ed for the New York Times[3] titled: "Putting Clients Second" that a client shared with me. In it, he lambasted the Department of Labor's decision to review and presumably overturn the fiduciary rule. He wrote that "It simply doesn't seem like a good business practice for Wall Street to tell its client-investors, 'We put your interest second, after our firm's, but it's close.'" He argues that the original plan didn't go far enough, as it only applied to retirement plan accounts, not to all types of investment accounts.

BY THE NUMBERS[6]

- The **price of oil ended 2016 at $53.72 a barrel**, up 45% from its 2015 closing price of $37.04. From a 6/20/14 closing price of $107.26 a barrel, the price of oil had fallen 76% as of 2/11/16 (to $26.21) before doubling to $53.72 by the end of 2016.
- The total return of **stocks** and the total return of **bonds** have not been negative in the same year at any time over the last 40 years.
- **Lenders foreclosed on 379,437 homes in calendar year 2016** (an average of 1,037 per day), down 16% from 449,900 in 2015, and down 64% from 2010 (1,050,500).
- 43.8 million Americans (out of 324 million citizens) have **outstanding college loans**, including 2.8 million individuals at least age 60. Only 27% of the 2.8 million seniors borrowed the money for their own education (i.e., the majority of seniors borrowed for a family member).
- **54% of student loan borrowers have either defaulted or failed to pay down even $1 of principal** on their outstanding debt over the last 7 years. Until an error was discovered in government calculations in January 2017, it was believed that just 34% of borrowers had either defaulted or had not reduced their debt in the last 7 years.

SHOULD YOU CARE ABOUT THE FIDUCIARY RULE? (CONT'D)

Bogle wrote: "The demise of the fiduciary rule would be a step backward for our nation, allowing Wall Street to continue to profit by providing conflicted advice at the expense of working Americans saving for retirement."

He adds: "Investor awareness grows with each passing day. The nation's investors are already awakening to the role of low costs and broad diversification, and understand that long-term investing is a far more profitable strategy than short-term trading." (The fact that assets in Vanguard just passed $4 trillion validates Bogle's comment.)

If you have an elderly parent, relative, or friend, who tells you about an investment that was recommended to them but sounds questionable to you, suggest they ask their investment professional how he or she is compensated. If the answer is tied to the sale of a high-commission product (and let's not forget the travel junket), suggest that they may not be receiving conflict-free advice. Not all brokers and sales people are self-serving, but far too many appear to fall into that category.

WE HAVE A SPEAKER!

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.

In future newsletters, you can expect to see articles written by John regarding Social Security and other topics.

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 NUMBERS[6]

- The **federal estate tax exemption is $5.49 million as of 1/1/17**. In other words a married couple would be able to shelter $10.98 million from federal estate and gift taxes. Only 0.2% of Americans that are expected to die in 2017 (an estimated 5,200 deaths) will leave estates that will be subject to the payment of federal estate taxes.
- There were **19.0 million college students** during the fall of 2016 (both undergraduate and graduate), the 5th consecutive year that the total number of students has **declined** on a year-over-year basis.
- Americans **purchased a record 17.55 million new cars and light trucks in 2016**, the 6th consecutive year of increasing sales for the auto industry.
- The **US stock market was worth $25.3 trillion** as of 12/31/16. The S&P 500 comprises 80% of the total US stock market, equal to $20.2 trillion.
- The last **Republican president** who was voted into office who did not suffer through a recession within 18 months of his inauguration was Warren G. Harding, who served from 1921-23 before dying of a heart attack.
- **Inflation** advanced by 2.1% in 2016. Inflation in 2015 (0.7%) and 2014 (0.8%) were two of the lowest rates of inflation in the US in the last 50 years.

FEELING IGNORED BY ADVERTISERS?

If you're like me and don't understand half of the television and print ads you see, it might be because advertisements are no longer directed at us. Advertisers are attracted to the largest target market, the group known as Millennials.

In case you're wondering where you fit, here are the numbers as provided by AARP The Magazine[4]:

- Greatest Generation (ages 89 and older): 3 million
- Silent Generation (ages 71-88): 26.2 million
- Boomers (ages 52-70): 72.9 million
- Generation X (ages 36-51): 65.9 million
- Millennials (ages 19-35): 75.5 million
- Generation Z (ages 18 and younger): 77.9 million

CONTRARIAN INDICATORS...

If you've read or heard the term contrarian as it relates to stock picking, it refers to a philosophy that goes against the grain, someone who doesn't follow the herd. At the end of 2015, for example, after the S&P 500 produced a total gain of only 1.4%, only 25% of stock investors were bullish (i.e., investors who thought the market was going higher).

A contrarian would view that information as a signal to buy, because there were so few investors who shared that opinion. Contrarian investors who followed their instincts were rewarded last year, because the total return for the S&P 500 in 2016 was 12%.

There are contrarians betting on everything. The moral to the story is just because you're in the minority doesn't mean you're necessarily wrong.

BY THE NUMBERS[6]

- For every two families that moved into South Dakota last year, just one family moved out, making **South Dakota the top moving destination state**. For every one family that moved into New Jersey last year, two families moved out, placing New Jersey last on the same list.
- **19% of Americans were not financially impacted by our nation's recession in 2008**. Another 20% was negatively impacted by the downturn but have since fully recovered. The remaining 61% have either somewhat recovered (41%), have not yet begun to recover (13%) or may never recover (7%).
- **One out of every three Americans lives in just four states**: California, Texas, Florida, and New York. These four states are home to 107.5 million citizens.
- **National health care expenditures** in the US during calendar year 2016 were an estimated $3.4 trillion. Just 10% of Americans were the source of 65% of that total.
- The average price of **gasoline** nationwide was $2.29 a gallon as of Friday, 1/27/17. The average price of gasoline in 1967 was 33 cents. After adjusting for 50 years of inflation, the 33 cent price in 1967 is equivalent to $2.42 in 2017 dollars.

WHAT TO CONSIDER WITH 55-PLUS LIVING:

The Wall Street Journal[5] explored a topic that is of interest to many persons either approaching or already in retirement: Where to live? For some, the decision is dictated by family or friends. For others, health issues play a big part in the decision.

"The biggest question is whether this lifestyle fits your particular needs. Clearly, many people love these communities, and with good reason. The best developments offer a rich mix of activities and amenities in a (mostly) secure and tranquil setting. But just as clearly, many others dismiss age-restricted living in general as (pick a word) bland, out of touch, insular, old. Whichever camp you're in, here are some additional points to consider:"

Demographics: "The average age in some 55-plus communities is much older than 55 – but some new residents don't recognize this until after they have purchased their home…This disparity is more common in developments that were built a number of years ago and where the earliest residents are aging in place." Alternatively, if you're a relatively young retiree, "…move to a new or almost new development." At least get a good feel for any community before you sign on the dotted line.

Finances: "You should review the financial records of the homeowner's association and the minutes of monthly meetings." You don't want to move to a community with no reserves in the bank, and end up with an assessment shortly after you move in.

Governance and rules: "How is the community managed?…Are board members full-time or part-time residents?…How are disputes handled?" Rules by the homeowner's association can significantly impact your lifestyle (i.e., think not being allowed to have a garden), so this is an important one to investigate.

Housing: "First, are homes in the community truly designed with older residents – and older limbs, joints and reflexes – in mind?….Second, resale. Remember: If and when the time comes to leave your home, you can't sell to the public at large; rather, you are limiting yourself to potential buyers age 55 and older."

Health care and transportation: "Don't assume doctors are plentiful and accessible. Is there a family practice or health-care network that's willing to add you to its patient rolls? And how much public transportation is available? You could be living in your community for a long time. What happens if you have to give up the keys to your car?"

BY THE NUMBERS[6]

- **Fiscal year spending for the US government** is projected to be $4.015 trillion, split between $2.538 trillion of mandatory spending (e.g. Medicare, Medicaid and Social Security), $1.207 trillion in discretionary spending, and $270 billion in net interest costs. There are 12 different categories that comprise the $1.207 trillion of discretionary spending, with the largest being defense spending ($592 billion).
- **The S&P 500 has gained 10.2% per year over the last 50 years**, in spite of suffering through 8 **bear markets** of at least a 20% decline each time.
- In 2014, 51% of **30-year olds earned more than their parents did** when they were 30-years old, adjusting for inflation. In 1970, 92% of 30-year olds earned more than their parents.

S.F. EHRLICH ASSOCIATES, INC.

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] Irwin, Neil. "Probably a Bad Idea to Sell Just Because You Fear Trump." *The New York Times*, 14 Feb. 2017.

[2] Tan, Kopin. "The Meltup Continues." *Barron's*, 13 Feb. 2017.

[3] Bogle, John C. "Putting Clients Second." *The New York Times*, 9 Feb. 2017.

[4] "Why Advertisers Ignore You." *AARP The Magazine*, 31 Jan. 2017.

[5] Ruffenach, Glenn. "What to Consider With '55-Plus' Living." *Wall Street Journal*, 9 Jan. 2017.

[6] "By The Numbers - Direxion ETFs & Funds." 3 Jan. 2017 through 6 Feb. 2017.

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