S.F. EHRLICH ASSOCIATES, INC.

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Managing YOUR Money

STAN'S WORLD

Whenever someone tells me that aging is hard, I've taken to replying "The alternative is less attractive." I guess I get away with saying that because, well, I'm apparently also aging.

Though I do my share of age-related griping, it intrigues me to read about, or listen to, how others are handling the aging process. While I like to think I'm doing okay, I notice that a larger portion of my daily exercise is spent on stretching, or balance, or what my trainer calls 'endurance.' I've even grudgingly accepted the fact that the Military Police Corps will not take me back should we go to war with North Korea.

But there are signs, some more subtle than others, that others are noticing that my youth is behind me. On weekends, for example, I've been known to indulge my sweet tooth a time or two, so it wasn't unusual to see me walk into the local bakery last Saturday morning. I was a little surprised, however, when the young lady who sold me my chocolate cigar pastry (which I highly recommend) asked me if I wanted a shopping bag after she placed it in a small paper sack.

Do I look so frail as to not be able to carry a single pastry in a small paper bag? (The car was parked all the way across the street.) Or did the gym attire make me look both old and homeless, thus necessitating the shopping bag as my suitcase to carry about town?

After I was able to stay awake for the entire car ride home (it's about one entire mile), I walked into my house and heard the iPhone ping. I looked down to see a message that said my parked car had been located. (Fortunately it was located still parked in my driveway.) Was the reminder a mere function of a parking app, or did someone at Apple HQ decide that I now require parking alerts when I'm home? (Is this how they're going to use artificial intelligence?)

I subscribe to the old axiom, things in threes, so I've been awaiting the third sign that I'm getting older. Perhaps it will occur this weekend, when my family helps my mom celebrate her 95th birthday. Should a stranger walk by and ask who's blowing out the candles, I'll nod knowingly, smile politely, and mutter an expletive under my breath. I know…the alternative is still less attractive.

GRAB YOUR IPHONE (IT MAY SAVE YOU MONEY AT ONE OF THE WORST TIMES IN YOUR LIFE)

I'll assume that all of us spend the money each year to pay the premiums for homeowner's insurance, whether you're a renter or a home owner. But should a calamity impact your home, such as a fire, have you thought about how you would file a claim? While you might have a policy for certain pieces of jewelry, or works of art, do you have a written description of all your furnishings? Other collectibles? Family heirlooms?

Start by taking a video of everything in your home, one room at a time. (Don't forget to open drawers and cabinets.) Along with the video, offer a running commentary of what you're taping, such as "Here's the hutch that my grandfather built in the early 1900's," or any other language that might be useful when the insurance company values your property should a disaster occur.

Once you've gone throughout your home (and don't forget the attic and the basement), you're only done with Part I. While this valuable information is now stored on your iPhone, your iPhone can be hacked. Or stolen. Or left behind and destroyed in a house fire. In other words, one copy is better than not having any copies, but you need to back-up the inventory.

If your photos are stored on iCloud, or some other cloud service, you've completed Step 2. But just to be sure, send the videos to a relative, so someone can initiate the claims process should you not be available to do so.

As you walk through your home, if you have valuable possessions that haven't been appraised in a while (i.e. artwork, jewelry, collectibles), make a note to do it/them again. If you ever suffer a horrific event such as a whole-house robbery, that's not going to be the time when you'll have the patience to argue about each of your valuables. (It's sort of like deciding it's time to diversify AFTER the stock market crashes. ("Can I buy some of those bonds now?")

BY THE NUMBERS[5]

- The **personal savings rate** in the US was 5.9% as of 3/31/17. The personal savings rate in the US was 1.9% as of 7/31/05, a record low in the country.
- Of the 3.14 million **high school graduates** in 2016, 2.19 million began college in the fall of 2016 (i.e. 70% of high school graduates went to college).
- Just 1% of Americans are responsible for 21% of **health care expenditures** in the US. Just 20% of Americans are responsible for 82% of health care expenditures in the US.
- **Americans under the age of 35** make up 25% of the US population but hold just 5% of US **wealth**. Americans between the ages of 55-64 make up 16% of the US population but hold 31% of US wealth.
- Christopher Leinberger of George Washington University's Center for Real Estate and Urban Analysis predicts that the next American recession will result in 30% of **shopping malls** nationwide shutting down. There are 47,000 shopping centers in the US.
- Only 36% of American jobs typically require some type of **postsecondary education**.
- The Social Security **payroll tax rate** paid by employees has been 6.2% since 1990 except for a 2% reduction in the rate during the 2 years of 2011-12.

GRAB YOUR IPHONE (CONT'D)

Your exposure doesn't end with your physical property. You may also be susceptible to other risks that you may not be aware even exist. An article in NAPFA Advisor by Patrick Ritter[1] points out other questions to ponder when determining whether you have sufficient insurance:

- Do you serve on any not-for-profit boards?" (They, and you, can be sued based upon actions you took, or failed to take.)
- Do you or your family members travel regularly (business or pleasure)?
- Do you have residential staff who service you or your property?
- Do you have children, particularly children who are at or near driving age?
- Do you entertain guests at your home (parties, charitable events, family gatherings, etc.)?
- Have you had a security profile/analysis completed on your home and in-home networks?

When you're done, call your property and casualty agent. You might need some more coverage, and that's something that's better to learn sooner than later.

BY THE NUMBERS[5]

- 44% of American private sector workers (i.e. 55 million of 124 million private sector workers) lack access to any **employer-sponsored pre-tax retirement plan**.
- The **unfunded pension liability** of the City of **Chicago** is estimated to be $27 Billion, an amount equal to 11 years' worth of the city's current annual tax revenue.
- 34% of American workers anticipate that they will have a different job with a **new employer** within 12 months.
- 23% of American workers surveyed in April 2017 are concerned about **losing their jobs**.
- The 3 **summer months** (June-July-August) have produced an average loss of 0.1% (total return) for the S&P 500 stock index over the last 25 years.
- Within 4 years of their 2008 graduation from **college**, 69% of individuals with student loans were making regular payments on the debt; 17% had fully repaid their **debt**; 9% were making no payments; and 5% had already defaulted on the loans.
- 44% of 6,600 adults surveyed in October 2016 could not pay for an **unexpected $400 emergency expense** out of cash reserves, forcing them to borrow the funds or liquidate an asset to pay the expense.

INVESTING LESSONS OF (THIS) CENTURY

We continually try to share information so our clients understand why we do what we do. Why we believe in building diversified portfolios, or why we aim to sell some equities when the stock market is going up and everyone feels euphoric and buy them when the market drops and everyone is cowering in fear. Why we encourage those in the marketplace to work a little longer and why we encourage those who are retired to spend just a little less.

Allan Roth, who writes for such magazines as The Wall Street Journal, AARP the Magazine, and Financial Planning, points out a few investing lessons to be learned in an article he contributed to Financial Planning Magazine[2] title: Investing Lessons of the Century. They include:

- ***Stocks are really risky***: Markets have lost 50% or more two times over the past 17 years. Unless you're a 25-year old with decades to work, a 50% drop can wreak havoc with a financial plan.
- ***US stocks are not the stock market universe***: If you want true diversity, you have to own the world. Even though many US companies have significant sales overseas, emerging and developed markets don't always perform in tandem with the S&P 500.
- ***The long run is really, well, long***: While none of us know how long we're going to live, improvements in medicine, lifestyle, etc. are contributing to longer and longer lifespans. Play it too safe in your investing strategy, and the ending may not be as happy as you envision. (Also see note above about stocks being really risky. Yes, there's a happy medium for everyone, though it can sometimes be hard to find and agree upon.)
- ***Break the prediction addiction***: One can always find a so-called 'expert' to support their opinion. Donald Trump won, so the markets have to go down. Or up. The markets have gone up so they have to go down. Now. Soon. Place bets on how you think the market will behave, and there's a high probability you could bet wrong.
- ***Don't bail on bonds***: Barron's reports[3] that "Since 1928, the S&P 500 has generated annualized total returns of 9.3%...but a less aggressive portfolio that captures only 63% of the upside in rallies can still outperform the index, chiefly by limiting downside exposure..." That's what bonds can do for a portfolio.
- ***Investing based on the recent past is a mistake***: Roth notes how many people he meets who have a high risk tolerance when markets are rising, but believe that cash is king when they're falling. None of us have a time machine; riding the wrong wave can be very costly.

SHOULD I INVEST IN AN IPO?

Snapchat has been in the headlines recently. At first, they were the darling of the initial public offering (IPO) space, with investors clamoring for a chance to purchase the company stock. The first act of that play ended on a high note: on the day of their IPO, March 2, 2017, the stock price finished up 44%, rising from an issuing price of $17 per share to later close at $24.48. Not a bad way to send the audience off to intermission.

Then came Act 2. In the months following their IPO, Snapchat has struggled, most recently with the release of their first quarter earnings. According to Barron's[4], "First-quarter revenues of $150 million fell short of the consensus estimate of $158 million and were below the fourth quarter's $166 million." Daily user growth was down, too. Wall Street was not pleased: the stock plunged 17% that week, closing at $19.14.

Snapchat is one story, which admittedly is yet to be written. They may stage a successful turnaround from here...or they may not. But the Snapchat story does provide a nice foundation to help answer a question we get asked a lot: Should I invest in an IPO?

IPOs are tempting for many reasons. Maybe you're a loyal customer of the company going public and you want a piece of the action. Or maybe the company is so pervasive across everyone's lives that it simply has to be a "sure thing."

In today's world of instant access to information, rarely, if ever, are there opportunities for the retail investor to get rich quick, and that's often the primary motivation when someone wants in on an IPO. But when it comes to IPOs, a more thorough analysis reveals there's more risk than reward.

Pricing an IPO is a tricky business. In brief, an IPO evolves as follows. First, a company with a great product decides it needs to raise additional capital to drive growth and/or increase market share. The company then consults investment bankers to determine which one is the best fit to drum up investor interest and bring them to market.

BY THE NUMBERS[5]

- 26% of 1,100 adults surveyed in Aoril 2017 fear that it is "very likely or somewhat likely" that their **current job will be eliminated within 20 years**, replaced by technology, automation, or a robot.
- 23% of **Millennials** who have student debt believe the college education they received "will never be worth" the debt they incurred. (Millennials are defined as the 75 million Americans ages 20-36.)
- **Medical expenditures** make up 17% of state spending on average today, up from 12% of state spending in 2010.
- 60% of 2,652 employees surveyed in November 2016 "**worry about money**." 30% of those surveyed "lay awake at night" worrying about money.
- 58% of American retirees consider their monthly **Social Security** benefit to be a "major source of retirement income."
- 54% of 18,336 adults surveyed in April 2017 **own stocks** (direct ownership or indirectly through a pooled investment like a mutual fund or exchange-traded fund) in their personal accounts or pre-tax retirement accounts.
- 67% of Americans working in the private sector (i.e. not working for the government) do not have **long-term disability insurance**.

SHOULD I INVEST IN AN IPO? (CONT'D)

There's an inherent problem with this process. The investment bank has to strike a sweet spot between maximizing the share price on the day the stock starts trading (which coincidentally maximizes their fee) and the price investors are willing to pay. A declining share price in the days and weeks following an IPO means the investment bank missed the mark and did a poor job of assessing the company's true value. This is bad press for both the investment bank and the company. For the investor, it's a loss in his portfolio.

Companies coming to the public markets for an IPO may be operating in the red but may be filled with potential for future growth, which makes the investment banker's job even more difficult. How do you put a price on a company with negative earnings? What if we're talking about a company in an emerging industry, a fairly common event these days, especially with the resurgence of technology company IPOs we've seen over the past few years? How do you value a social media company? Is it based on earnings? Revenue growth? Growth in users? These are largely untested waters that make swimming with the far more knowledgeable Wall Street sharks a very risky endeavor.

Patience pays off. When a company goes public, it takes time (which can be days for some stocks, months for others) for the market to get a handle on the fair price - a process known as "price discovery". The price discovery process essentially gives the public markets the opportunity to establish a company's value, which may or may not be substantially different from the value assigned by the investment bank. During this process, a company's stock price can fluctuate wildly while the public markets get a handle around the true underlying value of the firm.

BY THE NUMBERS[5]

- There were 21,030 **first-year med students** enrolled for the 2016-2017 school year. Applications for med school totaled 53,042 last year, an all-time record. 22 new medical schools have opened over the last 20 years.
- 78% of 1,007 Americans surveyed in February 2017 were confident in their ability to "**maintain the lifestyle** they want throughout their retirement."
- The US **unemployment rate** was 4.3% as of May 2017. The "unemployed and underemployed" rate was 8.4%, which is a combination of jobless individuals plus workers who are part-time purely for economic reasons. As of Oct 2009, the unemployment rate was 10.0%, while the "unemployed and underemployed" rate was 17.1%.
- Since 1940, the **life expectancy** at birth of a US citizen has increased by 1 year every 13 years.
- The number of **operating oil rigs** in the US reached 941 last week, up 43% year-to-date. The price of oil closed last Friday at $43.01 a barrel, down 20% year-to-date.
- A **divorced** spouse is eligible for the same spousal benefit and the same survivor benefit from **Social Security** as a still-married spouse if the marriage lasted more than 10 years.

SHOULD I INVEST IN AN IPO? (CONT'D)

We have seen instances where the investment bank underestimates the value of an IPO stock price and the company stock takes off upon issuance (e.g., Google and LinkedIn). And there are plenty of other instances where value is overestimated and the stock price does poorly out of the gate. Groupon, Twitter, Pets.com, Facebook...the list goes on and on...IPO stories that generated huge amounts of buzz prior to their release only to be swarmed with negative headlines in the days, weeks, and months that followed, along with share prices that fell well below the initial offering price. Some of these companies eventually righted the ship, following the path of a healthy, growing enterprise. Others, well, not so much, such as Groupon and Pets.com.

As part of a sound portfolio management process, investors should strive to generate positive portfolio returns while also reducing risk. When investing in an IPO, there are other factors at play that determine the ultimate performance of that investment besides the underlying value of the company. How accurately did the investment bank price the stock for IPO? Did the investment bank overestimate or underestimate pent up investor demand? If the company going public is in a nascent industry, are market conditions at the time of the public offering consistent with those present when initial valuations were calculated?

If you can afford to lose a little side money and want to place a 'reasonable' bet on an upcoming IPO that you've studied, then it's something to consider. (Assuming, of course, you can even gain access to shares on opening day, which is often a chaotic event.) Just don't use any money you might need for retirement, because it's possible the easy money was made long before your order gets placed.

BY THE NUMBERS[5]

- 52% of US households with someone at least age 55 had **no money saved** in any pre-tax defined contribution accounts (i.e. 401k, IRA).
- US corporations account for 19% of **global manufacturing** second only to Chinese manufacturers who represent 25% of worldwide manufacturing. Manufacturing accounts for just 12% of the US economy, down from 26% of our economy 50 years ago.
- A survey of **Millennials** found that they view **'old age'** as beginning at age 59. (Millennials are the 75 million Americans ages 20-36.)

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

Did we mention? *If you have a friend or family member who you think might benefit from a discussion with John or Stan 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 (a) if there are any changes in your financial situation or investment objectives, (b) if you wish to impose, add or modify any reasonable restrictions to our investment management services, or (c) if you've changed your permanent residence. In addition, a copy of our current Form ADV and Firm Brochure can be accessed on-line at www.sfehrlich.com.*

Footnotes:

[1] Ritter, Patrick. "Home Inventory and Insurance Review: An Opportunity to Add Value for Clients." NAPFA Advisor, May 2017.

[2] Roth, Allan S. "Investing Lessons of the Century." Financial Planning, May 2017.

[3] Levisohn, Ben. "What Bad News? Markets Surge Despite It All." Barron's, 27 May 2017.

[4] Bary, Andrew. "Optimism for Snap Is Disappearing." Barron's, 15 May 2017.

[5] "By The Numbers." Direxion ETFs & Funds, 8 May 2017 through 26 Jun. 2017.

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S.F. Ehrlich Associates is a fee-only financial planning and asset management firm. Managing YOUR Money is compiled entirely by Stanley F Ehrlich and John Zeltmann. Questions or comments are always welcome (and encouraged!) and should be sent to stan@sfehrlich.com.