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ASSOCIATES, INC.

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Managing YOUR Money

STAN'S WORLD

I can't say it takes up a lot of our day, but John and I do spend a little time answering a similar question using a variety of the same answers: "NO", "I don't think so", "Have you really thought about this?", and "Is this is the same brother-in-law that you told me last year was a loser and good-for-nothing?"

What's the question you ask? "I'd like to invest some money in (fill in the blank)."

Let me start by acknowledging that many investments can add diversity and (potentially) growth to an equity and bond portfolio. Your home, for example, is one of those types of investments, though we often don't view our homes as long-term investments. While residential real estate may be a good diversifier from stocks and bonds, the Great Recession of 2008-2009 taught us that it's also an investment that can also drop precipitously in value.

Our business is about trust. It's imperative that our clients believe the recommendations we make and the investments we buy are in their best interest. John and I are fiduciaries, which means we put the interest of our clients first. It's one of the true benefits of being fee-only financial planners.

The Wall Street Journal recently published an article¹ featuring Mary and JC Barb of Hemet, CA. Specifically, the article described how the Barbs lost \$78,000 after their financial advisor persuaded them to invest in an offering from a company whose headquarters was a mailbox in a UPS store in a strip mall in Las Vegas. In total, they estimate that investors will lose more than \$100 million in just this one 'investment'.

I realize that \$100 million is pocket-change when compared to the Madoff fraud, but I suspect that Mr. & Mrs. Barb would really like their \$78,000 back, as they're retired and have no way to re-earn those dollars.

Some may argue that the Barbs were even complicit, as they sought higher returns and wrote a check in an attempt to achieve them. After all, if they hadn't written the check, they wouldn't have lost the money. (Regretfully, they had a financial advisor who they obviously trusted, and they listened to him. That does beg the question: How was he getting paid?)



STAN'S WORLD (CONT'D)

Days later, the Journal² had a story on the Wells Fargo Wealth Unit, and how its advisors were rewarded for selling products to generate fees and win contests. Presumably, their clients also assumed they had trusted financial advisors. Did any ask how their advisors were being paid?

Too many people who try to reach for more yield or higher returns through unconventional means are often sorry they tried. When it comes to personal finance, it's a minefield out there, and expensive lessons are learned long after checks are written and dollars withdrawn from accounts.

I tell these stories because we hate getting lumped in with those unscrupulous persons who call themselves financial advisors but who are motivated by product sales. (This is my moment to again heap praise on fee-only financial planners.)

Regarding your investments, they're with a custodian, such as Charles Schwab. You can access those investments at any hour of any day, and they can be made liquid, or sold, in one day. (No need to go to strip malls to look for your money.) We never ask clients to write checks to third parties.

The next time we talk, forgive me in advance if the conversation shifts to how you can generate higher annual returns and I put you on hold so I can climb to the tallest steeple in Westfield. I hope you'll hear me when I scream the words: We're not here to make you rich. We're here to make sure you don't become poor.

HARD DECISIONS: SHOULD YOU RELOCATE WHEN YOU RETIRE?

By: John Zeltmann

When speaking with clients about relocating in retirement, one question prevails: Which state is the best state to retire to from a tax perspective? As is the case with most questions in the world of financial planning, the answer is...it depends. On you.

BY THE NUMBERS⁴

- The yield on the **10-year Treasury** note closed at 1.36% on 7/08/16, its lowest closing yield ever. (10-year notes have been traded in the USA since 1790, i.e., 228 years of trading.) The yield on the 10-year note closed last Friday (8/17/18) at 2.85%.
- Proposed US **tariffs** on car imports will add an estimated \$5,800 to the price of an imported foreign vehicle.
- 45 US states collect statewide **sales taxes**, i.e., 5 states (Alaska, Delaware, Montana, New Hampshire and Oregon) have no state sales tax. California has the highest state sales tax (7.25%) in the nation.
- The annual **household costs** of a family with 2 adults and 2 children is 140% of the annual household costs of a family with 2 adults and no children.
- The average American household, even after the benefit of Medicare coverage, spends \$197,000 in "out-of-pocket" **health care costs** during retirement. This figure does not include any costs relating to nursing home care.
- 6 out of 7 **Millennials** (86%) would "consider" taking a cut in pay to work for a company that follows "a mission and values" that aligned with their own. Millennials were born between 1981-97 and are age 21-37 in 2018.

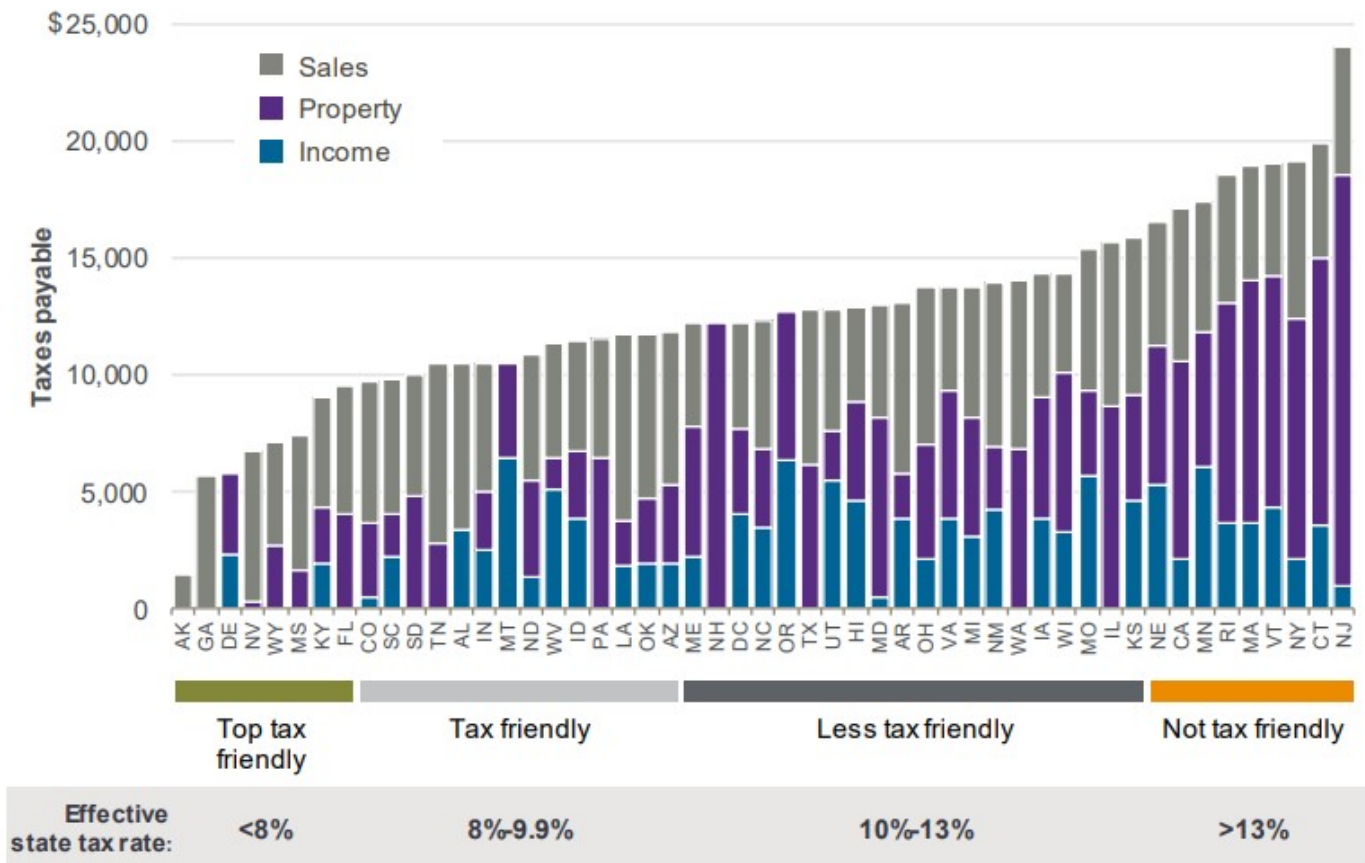


HARD DECISIONS: SHOULD YOU RELOCATE WHEN YOU RETIRE (CONT'D)

What kind of income streams will you have in retirement? Will you only be collecting Social Security or will you also receive a pension? Do you have a large IRA that will yield significant required distributions each year? What about other taxes you will have to pay, including property and sales taxes?

Take a look at the chart below³, prepared by J.P. Morgan, which addresses the overall tax burden faced by residents of all 50 states:

Composition of estimated state taxes



The chart offers some interesting takeaways:

- They are who we thought they are: As expected, two of the more popular retirement destinations - Florida and Arizona - rank very favorably. (Florida doesn't have a state income tax while Arizona keeps its burden reasonably low.) Property taxes are also relatively low in both states. While not reflected in this chart, neither state has a state estate tax.



HARD DECISIONS: SHOULD YOU RELOCATE WHEN YOU RETIRE?

- High tax states shouldn't automatically be disqualified: Rounding out the bottom of the list, the least favorable states include a few that currently serve as home to many of our clients. While New Jersey, New York, and Connecticut have the three worst tax burdens in the country, it doesn't make them bad places to live. Many states with heavy tax burdens are ideal places to raise a family, earn a living, and generally build a wonderful life. If you live there and want to continue to do so in retirement, you certainly can. The caveat is your retirement plan can only support a certain level of spending. If money is going towards taxes, it isn't going towards other endeavors you may want to pursue during your golden years.
- Consider all tax types: When reviewing tax burdens imposed by specific states, it's important to consider each of the big three tax types: property, income, and sales taxes. A few states (specifically, Delaware, Oregon, New Hampshire, and Montana) are touted as attractive retirement destinations because they don't impose a sales tax, which helps to lower retirees' annual expenses. Per the chart above, that theory only rings true with one of those four states (Delaware). The other three, while indeed not egregious, make up for any sales tax sacrifice with higher property and/or income tax burdens.

What about the qualitative elements? Do you want to live in an area that experiences all four seasons or are you seeking sunshine and warm breezes year round? Do you want to be a snowbird and combine both? Do you want to live near family? Does the retirement destination lend itself to your favorite activities (e.g., golf, hiking, skiing) and hobbies (e.g., charitable work)? Do you want to live in an urban or rural setting?

Presumably, you may not know the answers to some, or any, of these questions. In fact, if you're in the midst of choosing where to retire, consider renting in your chosen destination for a few months. Ideally, it will be everything you dreamed of - and if it isn't, your financial commitment is minimal.

When reviewing lists of top retirement destinations, remind yourself what lens the author is looking through when compiling his or her rankings. Which taxes are being considered and which are being ignored? What qualitative factors are being considered, such as climate and culture?

We've had these discussions with many clients through the years, diving into both the tax considerations of a move as well as the qualitative items. If this is something you're wrestling with, we can help with the decision-making process.



WHAT IS SMALL BALL, AND WHY SHOULD YOU CARE IF WE PLAY IT? (HINT: WE'RE DOING IT WITH YOUR MONEY)

A few years ago, Carl Richards, author of "The Behavior Gap: Simple Ways to Stop Doing Dumb Things with Money," wrote a column⁴ in which he advocated that financial advisors should play small ball with money they manage. It's directly related to this issue's Stan's World, so we took it out of the archives, dusted it off, and will use it to explain further why our asset management process so closely resembles small ball.

Sports metaphors are pervasive when it comes to investing. Many investors, for example, like to go for a home run. They want to pick the stock that's going to become the next Berkshire Hathaway, or Apple, or Amazon, and ride the investment to the moon and back (or even beyond).

Unfortunately, home runs are few and far between, and some more speculative investments may even result in strikeouts (yet another baseball term) whereby the investment yields no return and the dollars invested may actually be lost.

In contrast, small ball is when portfolios grow by a few points here and a few points there. Nothing too dramatic on the upside, and (hopefully) nothing too dramatic on the downside. As Richards wrote: "It may feel and sound counterintuitive, but the more boring you can make the investing experience for your clients, the better off they'll be."

In investing, as well as in baseball, you can win by hitting singles without having to hit home runs. So long as the job gets done, boring can indeed be beautiful.

BY THE NUMBERS⁴

- On 7/01/18, the price of a barrel of **oil** was \$74.15 while the average price of a gallon of gasoline was \$2.85. On 7/01/17 (1 year ago), the price of a barrel of oil was \$46.04 while the average price of a gallon of gasoline was \$2.24.
- 40% of the **robots** used in the United States today are in the auto industry.
- Just 3.7% of American seniors wait until age 70 to begin claiming their monthly **Social Security** retirement benefits.
- If you missed the 5 best **performance** days in the past 10 years (i.e., 5 days in total, not 5 days each year), your average return was cut by more than 4 percentage points to +5.8% per year.
- 1 out of every 22 individual **income tax returns** (4.5%) filed for tax year 2015 reported adjusted gross income of at least \$200,000.
- In the week ending 7/13/18, American **oil companies** produced 11.0 million barrels of crude oil a day, then turned around and exported 1.5 million barrels of crude a day. The USA also imported 9.1 million barrels a day, with 40% of the imports coming from Canada.
- More than half (55%) of the **manufacturing** in the world is done in just 4 countries: China, the United States, Japan and Germany.



CYBERSECURITY: STOP WHAT YOU'RE DOING AND TAKE ACTION NOW

We heard from a financial planner colleague in Maryland who recently shared an absolutely incredible cybersecurity scam experienced by one of his clients. The series of events is so frightening that we're compelled to strongly urge you to take steps to better protect your investment and other accounts. Cybercriminals are using technology to degrees never before seen.

Some of the elements of the fraud:

- A fraudster called a Schwab account holder and spoofed Schwab's phone number on caller ID so the account holder believed Schwab was calling.
- The Schwab account holder provided some personal information to the fraudster because he erroneously thought he was talking to Schwab.
- The fraudster then called Schwab and was able to spoof the account holder's phone number on caller ID so Schwab believed they were talking to the actual account holder.
- Armed with a significant amount of personal information, the fraudster arranged for a withdrawal from the Schwab account to a bank checking account which was opened in the client's name but not by the client.

What you should do to safeguard yourself against fraud and your Schwab accounts:

- Call the Schwab Alliance Team (800 515-2157) and add a verbal password. This will be requested anytime you, or someone acting as you, call Schwab to initiate a transfer or withdrawal from any of your accounts.
- When you call the Schwab Alliance Team, have them help you setup a random number generator (also known as a two-factor authentication key) to be used every time you log into your Schwab account(s). The keys are available in multiple forms, including a physical device you can carry around in your pocket as well as a smartphone app.

BY THE NUMBERS⁴

- If you selected any single month at random to invest in the S&P 500 (at the close of the prior month) during the 25-years ending 6/30/18, you achieved a positive total return 66% of the time. If you extend your investment time horizon to just 1 year, you achieved a positive total return 81% of the time. If your time horizon was 2 years, you achieved a positive total return 80% of the time.
- There are 2.8 workers paying **payroll taxes** for every 1 Social Security beneficiary in 2018 (i.e., there are 36 beneficiaries for every 100 covered workers today). The program is projecting that there will be 2.2 workers for every 1 Social Security beneficiary in the year 2035 (or 46 beneficiaries for every 100 covered workers in 2035).
- The companies in the S&P 500 received 43% of their 2016 sales from **foreign customers**.
- The top 3 **American exports** sold in 2017 to foreign buyers were aircraft, gasoline (and other refined petroleum products), and motor vehicles.
- **Lenders foreclosed** on 133,290 homes in the first 6 months of 2018, down 21.2% from 169,124 foreclosures in the first half of 2017. The peak of bank repossessions in the last decade was in 2010 when more than 1 million homes (1,050,500) were taken back by lenders.



CYBERSECURITY: STOP WHAT YOU'RE DOING AND TAKE ACTION NOW (CONT'D)

- Ask the Schwab Alliance Team if you can record a voice authorization sample so they can identify your voice as a final means of verifying your identity should you ever call them.
- Our colleague from Maryland also discovered that debit cards are less secure than credit cards and are vital to moving funds between accounts. Consider eliminating, or at least limiting, the use of a debit card if you have one.

None of the above security steps will interfere or restrict our ability to manage your accounts at Schwab, as we don't use the same portal as clients to access accounts. (Please note these types of situations are not unique to Schwab. If you have an account at another custodian, or even a bank, you should call to ask if they have similar authentications to avoid security breaches there as well.)

While technology has enhanced all of our lives, it has also enabled criminals to dream up new scams on a daily basis. More security is better than less, so take steps today to reduce the odds that you'll be a victim of a cybercrime.

BY THE NUMBERS⁴

- 19% of the US population is currently receiving a monthly benefit payment from **Social Security**, i.e., 62 million beneficiaries out of 328 million Americans.
- An average American worker has increased his/her **productivity** by +101% in the last 40 years, i.e., an average worker can complete in 1 hour as of 12/31/17 the same amount of work that it took him/her 2 hours to finish as of 12/31/77.
- 65% of Americans surveyed in July 2018 think "it's a good time to **buy a house.**" That percentage was as high as 83% in December 2014 and hasn't been as low as 65% since December 2008.
- **National health expenditures** were \$3.34 trillion in 2016, projected to grow to \$5.70 trillion by the year 2026. 37% of the \$3.34 trillion are Medicare and Medicaid expenditures.
- **Alaska**, the largest US state (by acre), represents 17.4% of all US land. Alaska's size (424 million acres) is larger than the combined acres covered by the next 3 largest states - Texas, California, and Montana.



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.

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.*

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.*

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¹ Eaglesham, Jean. "Private Pension Wipes Out Investors." *The Wall Street Journal*, 23 July 2018.

² Glazer, Emily. "Advisers Blew Whistle on Wells Fargo Wealth Unit." *The Wall Street Journal*, 27 July 2018.

³ Roy, Katherine, et al. "J.P. Morgan Guide to Retirement, 2018 Ed."

⁴ Richards, Carl. "Is That It?" Clients Want Home Runs. Your Job Is to Play Small Ball." *Morningstar*, Jan. 2015, pp. 16-16.

⁵ "By The Numbers." Direxion ETFs & Funds, 9 July 2018 through 13 August 2018.

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