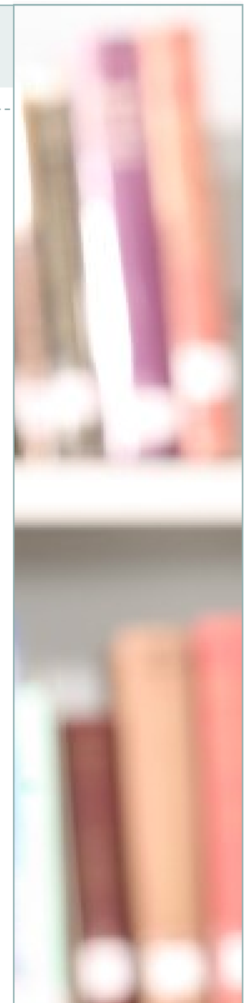
S.F. EHRLICH
ASSOCIATES, INC.

August 15, 2019



Managing YOUR Money

STAN'S WORLD

Despite my non-violent predilection, should I ever meet the person who coined the phrase "Growing old gracefully," I would probably hit him. After all, how many seniors do you know who have aged gracefully? Some seniors I know may be less aggrieved than others, but virtually everyone I know has one (or more) afflictions.

I can't speak for all seniors, but I have found aging to be, well, an interesting experience. We all know about "senior moments": Why did I walk into this room? What's the damn name of the person who's walking towards me in the supermarket? Who did I just dial? Why didn't the kids give all the grandchildren the same name?

There was a time when not only could I remember the names of every student I taught in college, but 10 years later I could even remember the grades I gave them. Fast forward to today: Names and dates? Fuhgeddaboudit. (Interestingly, I've retained the ability to process numbers. If every friend, relative, and client wouldn't mind replacing their name with a numeric, I'd be in great shape. Meeting you in the supermarket would be a breeze: "Hey, 46, how have you been?")

A few weeks ago, I decided I needed a new bike. I didn't like standing on my tiptoes when I had to balance on my bike while stopped at STOP signs, so I started to view STOP signs as suggestions, not requirements. Realizing my days might be numbered with that sort of driving acumen, I walked into the local bike shop to inquire about a new bike. Maybe something with a lower bar that wouldn't cause me grievous bodily injury when it was time to dismount?

The friendly young bike enthusiast showed me several bikes and let me do demo rides down the street with as many as I wanted. But the one I settled on was a bike that the manufacturer calls a Lowstep, which is probably slang for pansy. It makes mounting and dismounting incredibly easy.

Sensing my frustration that I was transitioning from a man's bike to a unisex, or girl's bike, the young bike enthusiast told me it's their best seller. (He probably says that to all the girls, I mean guys.) In the end, practicality won out, and I happily drove home with it.

STAN'S WORLD (CONT'D)

All I know is it's comfortable (it has a shock absorber in the seat post) with a great ride due to the wider, and larger tires. It's sort of cosmopolitan in nature; I could easily (though probably not quickly) use it to become a messenger or Uber Eats driver in Westfield. (Ultimately I might have to if the markets don't recover.)

In a roundabout way, I'm acknowledging that we change as we age. While I may have started my adaption with a new bike, there's a lot more work to be done. Attempting to grow old gracefully is hard work.

For years, Pearl has asked me where I keep passwords for our accounts. I keep them written in folders, with the old ones below the new ones, or on top of the new ones, or next to the old ones. But what would Pearl do if I didn't come back from a delivery while riding my ol' geezer bike?

We solved the problem by putting all of our passwords on a password protection program, and you should consider doing the same, even if you're not a senior. Every password, for every log-in that requires a password, even if there are separate passwords for Pearl and I. All in one, secure location. When I finished, it felt almost as good as buying a girl's bike, I mean a Lowstep bike. These programs typically require a master password; since all of your passwords will ultimately be protected by this master password, make sure it's simple enough for you to remember but also complex enough to impede a hacker. In addition to letters, include numbers and symbols (e.g., #, %, !). Also, be sure to change it every 3-6 months to keep the fraudsters guessing. Popular password managers available today include Dashlane, 1Password, and LastPass.

I recently wrote about our hunt for a house in Westfield with a master bedroom on the first floor. While still unsuccessful, it speaks to the need for us to reset as we age. Most important of all, perhaps, is resetting well in advance of when we otherwise would have to reset. In other words, get rid of the steps before you can no longer walk up or down the steps.

BY THE NUMBERS[4]

- **7,037 American retail stores** have closed YTD through 6/30/19, already exceeding the 5,864 closures that occurred during all of calendar year 2018. This year's store closures are on pace to exceed the all-time record of 8,139 from 2017.
- The US **economic expansion** began its 11th year (i.e., 121st month) a week ago today on 7/01/19, making it the longest-running expansion in our nation's history based upon government data that has been maintained since 1854 or for 165 years.
- Exports make up 12% of the gross domestic product (GDP) of the **United States**, 19% of the GDP of **China**, and 50% of the GDP of **Germany**. GDP is the annual market value of all goods and services produced domestically by a country.
- **65% of the debt** of Americans as of 3/31/19 is **mortgage debt**, i.e., $10.4 trillion of mortgages out of $16.1 trillion of total household debt.
- The number of **publicly listed companies**, i.e., companies traded on an exchange, has dropped from a peak of 8,090 in 1996 to just 4,336 today.
- **Student loan debt** has doubled in the United States since 12/31/09 and has quadrupled since 6/30/05.

STAN'S WORLD (CONT'D)

I bought the new bike before I fell off the old one; falling off the old bike may have ended my biking days. While the new bike doesn't mean I can't be injured, it reduces the probability of some injuries, like those that might occur when gliding through a STOP sign.

If you're aging, gracefully or otherwise, sit down and plan. Better yet, let's do it together. What works around your house, and what doesn't? Which parts of your life are getting more challenging, and what can be done about them? Does your partner, or a trusted family member, know about passwords? Bank accounts? How the electric bill is paid? Where's the key to the safe deposit box? What's the password for the ATM?

That's all for now; I have to go. It's time to start writing my next uplifting column – *Arthritis: One man's story of how he fell in love with his rheumatologist.*

IT'S A WILD, WILD RIDE OUT THERE

During periods of volatility, or in anticipation of volatility, or just about any day of the week, it's common to speak to a client or two about market volatility. The questions are often similar: "How can I get market returns with less risk?" Or, "Can't we sell everything and go back in when things settle down?"

If the following questions aren't asked, we're sure clients wonder why they own fixed income (i.e., bond funds) when the stock market goes up; why they own equities when the stock market goes down; or why they own foreign equities when the S&P 500 seems to always go up.

It's probably not sufficient to answer these questions in the simplest fashion (You can't; You can't; Because you have to; Because you have to; Because you have to). To help answer these questions, the following chart from JP Morgan[1] graphically depicts the performance of stock, bond, and blended portfolios over a variety of time frames (i.e., one year to rolling 20-year periods).

BY THE NUMBERS[4]

- The Fed has initiated **5 rate-cutting cycles** since 1990, i.e., in 1990, 1995, 1998, 2001 and in 2007. In the 1-year following its 7/13/90 initial rate cut, the S&P 500 gained +3.5%. In the 1-year following its 7/06/95 initial rate cut, the S&P 500 gained +18.7%. In the 1-year following its 9/29/98 initial rate cut, the S&P 500 gained +20.9%. In the 1-year following its 1/03/01 initial rate cut, the S&P 500 lost 13.5%. In the 1-year following its 9/18/07 initial rate cut, the S&P 500 lost 20.6%.
- The **top 1% of wage earners** in the US reported at least $480,804 of pre-tax income in 2016 and own an estimated 29% of the total wealth in the country.
- 57% of Millennials **burdened with student debt** resulting from their college education **regret taking out** as many loans as they did. Millennials were born between 1981-97 and are ages 22-38 in 2019.
- An estimated **56 million Americans** will be **at least 65 years old** by the year 2020, i.e., **1 out of every 6 Americans**. An estimated **73 million** Americans will be at least **65 years old** by the year 2030, i.e., **1 out of every 5 Americans**.
- 24% of American workers did **some** of their work or **all** their **work from home** in 2018.

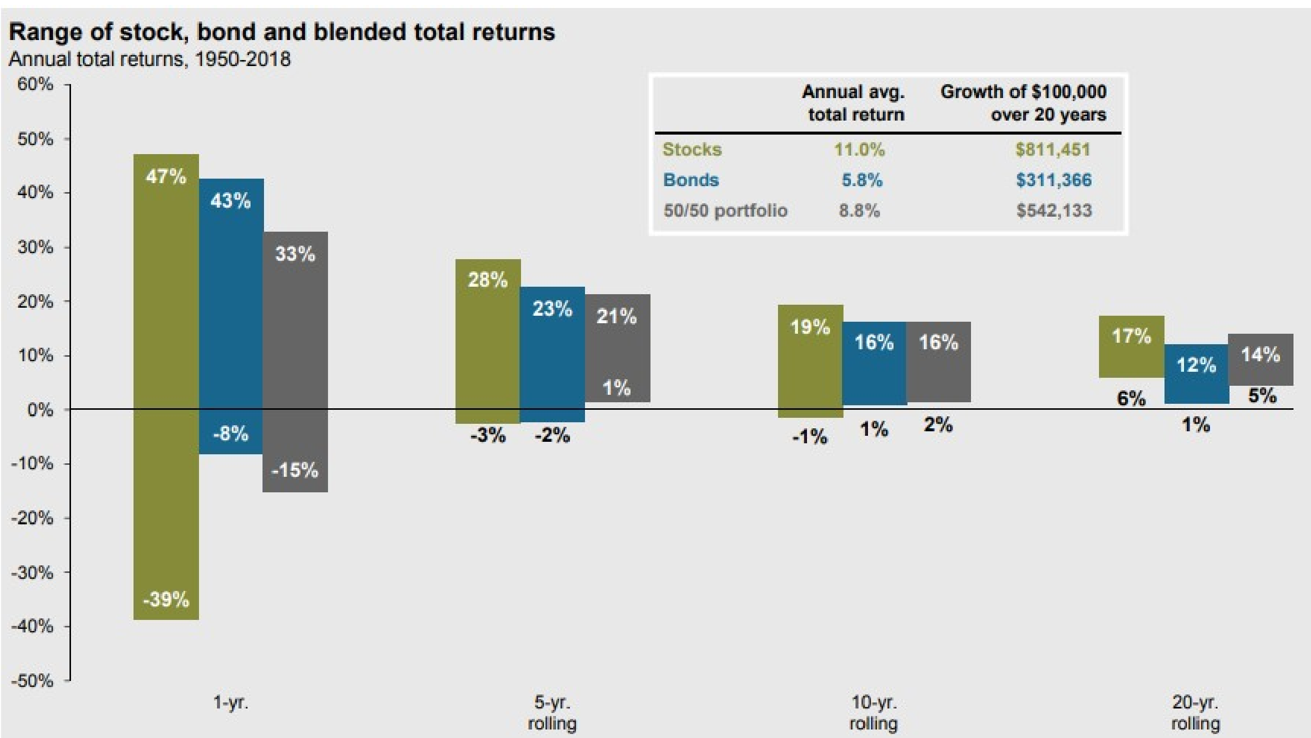
IT'S A WILD, WILD RIDE OUT THERE (CONT'D)

As the graph depicts, investors can't get market returns unless they invest ALL of their assets into the market. And the market, as measured by the S&P 500, for example, is a potentially risky place to invest ALL of your money, unless you have a very long investment horizon.

In terms of getting out of the market when one anticipates a market downturn, we don't have the ability to predict market peaks and valleys, so we ride through them and keep re-balancing. Trying to time the market (which relates to the three questions above that may often be thought but not asked) is typically a fool's errand. Miss too many up days, and those gains are lost forever. And one of those great days may occur during a period when you're out of the market because you thought it was going to fall.

In the end, the answer to how to reduce volatility and achieve returns that will make your retirement plan successful isn't timing the market, but time in the market. Note how equity market volatility (as measured by annual average returns) drops from a range of -39% to +47% for any single year, to +6% to +17% over rolling 20-year periods.

As life expectancy continues to increase, the importance of a long game for investments takes on even more significance. That doesn't mean you won't have agita along the way, but odds are the ride will get less bumpy the further down the road you get.



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.0%	$811,451
Bonds	5.8%	$311,366
50/50 portfolio	8.8%	$542,133

Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2018. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2018.
Guide to the Markets – U.S. Data are as of June 30, 2019.

WHAT'S THE DOWNSIDE TO PLANNING THAT YOU'LL LIVE TOO LONG?

Life expectancy has increased over the past 100 years. Thus, it's not uncommon for clients to suggest that their retirement plan include an extended life span, sometimes to 95 years or more. But if a plan covers retirement to age 95 (or beyond), is there a downside?

Our clients are individuals, not statistics, but we have to rely on statistics in order to best plan for our clients. If a couple suggests that we should use an extended life span when calculating their retirement plan, since they each have elderly parents and/or family members, we'll do so. Unfortunately, the price to be paid may impact their lifestyle during the earliest years of their retirement.

While clients tell us one story, statistics may tell us a different one. Using Social Security Life Tables[2], for example, the probability of a 65-year old male living to age 80 is 73% and 23% to age 90. For women, the probability of a 65-year old female living to age 80 is 73% and 34% to age 90. For a couple, however, the likelihood that one will live to age 80 is 90% and 49% that one will live to age 90. There's even an 18% probability that one will live to age 95.

The planning implications are significant. Set aside too much money for the later years and you run the risk of not having sufficient money to spend during the first third of your retirement years, when you might be healthy enough to travel, enjoy a new car, dine out, and drink fine wine. In contrast, if you spend too much money during the early years, there may not be sufficient assets in later years when more funds are needed for home care or other health issues.

BY THE NUMBERS[4]

- In the **last 25 years**, i.e., 7/01/94 to 6/30/19, the USA suffered **just 2 recessions**. In the **25 years before that**, i.e., 7/01/69 to 6/30/94, the USA had suffered **5 recessions**.
- The **wealthiest 1% of Californians**, i.e., taxpayers reporting adjusted gross income of at least $877,560, **pay 48% of the total state income tax** collected.
- 624,000 Americans have **died in car crashes** in the **last 20 years**, i.e., 2000-2019, equal to the 624,000 **Americans soldiers** that died in World War I (117,000), World War II (405,000), Korean War (37,000), Vietnam War (58,000), and the Afghanistan/Iraqi War (7,000).
- The **top 5 countries** purchasing American exports in 2018 were Canada, Mexico, China, Japan and the United Kingdom.
- Over the **12 years** from 6/30/04 to 6/30/16, the number of **"renter" households** in the United States increased by +11.2 million to 43.9 million, while the number of **"owner" households** increased by just +1.0 million to 74.4 million. However, over the last 3 years from 6/30/16 to 6/30/19, the number of "renter" households in the United States was flat, remaining at 43.9 million, while the number of "owner" households increased by +4.1 million to 78.5 million.

WHAT'S THE DOWNSIDE TO PLANNING THAT YOU'LL LIVE TOO LONG? (CONT'D)

Depicting life expectancy is not exactly like trying to thread a needle, but close. The differences in spending are certainly not trivial: Tell retirees that they can spend 6% of their $1,000,000 retirement portfolio, and they'll count on $60,000 a year. In contrast, a 4% spending rate drops that number to $40,000 a year. To most retirees, $20,000 a year is a significant amount of money, and that amount is even more significant if these spending rates are applied to portfolios valued at $2,000,000 or more.

There's a reason why retirement planning shouldn't be static; there's no such thing as a set-it-and-forget-it number. While we all worry about what the stock market can do to our portfolio in any given year, or how inflation may impact our future purchasing power, don't neglect the fact that planning for too long a life span just to be 'safe' has the potential to negatively impact your quality of life over the near term.

SPEAKING TO YOUR CHILDREN (THE OLDER ONES) ABOUT MONEY

We've previously written about helping young children to learn about charity and savings. Those lessons can be life-long, and life-changing, and they shouldn't stop.

As the New York Times[3] points out in an article titled "The Birds and the Bees. Why Not Bequests? Parents will talk to their children about drugs or sex, but often won't discuss inheritance," we often limit the lessons we teach our children, especially our adult children.

BY THE NUMBERS[4]

- The last year when the **highest close during the year** for the S&P 500 **occurred during August** was in 1987. Since 1987, the high close for the index has occurred in December 17 times.
- Of the 532 **bank failures** that have occurred in the USA during the 15 years ending 7/31/19, 51% (270 failures) have taken place in just 4 states – Georgia, Florida, Illinois and California.
- There are **$13 trillion of "negative-yielding" government bonds** in the world today, i.e., a bond investor who hold the debt instrument to maturity will receive less money back over the bond's lifetime, including annual interest, than what he/she paid for the bond up front. $6 trillion of the $13 trillion is Japanese sovereign debt. None of the $13 trillion is US government debt.
- 40% of American homeowners, i.e., 31.4 million out of 78.5 million, own their primary residence **free and clear of any debt**, i.e., no outstanding mortgage debt or home equity loan. The 31.4 million homeowners with **zero housing debt** represent 26% of the 122.4 million households in the United States today, the latter total including 43.9 million households who are **renters and not owners**.

SPEAKING TO YOUR CHILDREN (THE OLDER ONES) ABOUT MONEY (CONT'D)

A study by Merrill Private Wealth Management revealed four reasons why "two-thirds of Americans who have at least $3 million in wealth have not talked to their children about their wealth or never will…"

- ***"(P)arents do not want inheritance to rob children of motivation."*** Some parents don't want their kids to know what they have so that knowledge doesn't derail their career path. But what if they take a career path that pays less because they assume they'll inherit their retirement money at some point in the future? Shouldn't they know if any of that money is ultimately going to them?
- ***"Talking will worsen your anxiety."*** As the title of the article suggests, we've all talked to our kids about sex, drugs, and drinking. If you feel anxious talking about money, all your kids have to do is look around your house (or cars, or vacation destinations) to conclude that you're in pretty good financial shape. (Zillow can provide an estimate of how much your house is worth, and they can probably calculate your salary thanks to Google.)
- ***"No one ever had the talk with you."*** Sharing your feelings about money is a good place to start a family conversation, especially if you never had that kind of conversation when you were a child. In fact, how many times have you heard the opposite story; stories about adult children learning how little money their parents had until the adult children had to start paying their parents' bills when their elderly parents ran out of money?
- ***"You don't come from legacy wealth."*** When families pass generational wealth on to the next generation, talking about money is what they do. They want the next generation to be thoroughly knowledgeable and educated about the wealth they're destined to receive. Thus, even if you don't have legacy wealth, the last thing you should want is for your children to unexpectedly inherit money and then act like they just won the lottery. If you look at the statistics, many lottery winners ultimately go bust because they had no idea how to handle their new found wealth, and your children may follow the same path unless they're taught otherwise.

Talking about money with your children may not be easy, and may even require the assistance of a professional to get it right (Hint: we're here to help). But not talking about your money may ultimately prove far worse.

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.*

S.F. Ehrlich Associates, Inc.
37 Elm Street, Suite 5
P.O. Box 2278
Westfield, NJ 07090

Phone: (908) 789-1100
Fax: (908) 789-1115
Email:
Stan Ehrlich: stan@sfehrlich.com
John Zeltmann: jzeltmann@sfehrlich.com

[1] Kelly, David, et al. "J.P. Morgan Guide to the Markets, June 30, 2019 Ed."

[2] Kitces, Michael. "Life Expectancy Assumptions In Retirement Plans - Singles, Couples, and Survivors." Nerd's Eye View, 18 Mar. 2014, www.kitces.com.

[3] Sullivan, Paul. "The Birds and the Bees. Why Not Bequests?" The New York Times, 3 Aug. 2019, p. B5.

[4] "By The Numbers." Direxion ETFs & Funds, 8 July 2019 through 5 August 2019.