



S.F. EHRLICH
ASSOCIATES, INC.

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Managing YOUR Money

STAN'S WORLD

I suspect more than a few of you have made a New Year's resolution or two for 2018. Lose weight? Exercise more? Eat healthier? Drive less aggressively (for NJ residents only)? While I typically don't make New Year's resolutions, this year I have one I'm going to work on, and I invite everyone to join me: I need a new volunteer gig.

While John and I do pro bono planning work throughout the year - we get referrals from a social service agency, accountants and clients - I need to do something unrelated to personal finance. For the past three years I served as the president of my college fraternity's house corporation, aka the landlord. Without getting into details, suffice it to say my boys 'colored outside the lines' and ended a chapter that had endured for 107 years, thus abruptly ending my service.

I can't speak for others, but I find that volunteering helps me to maintain perspective. Every Christmas, for example, Pearl and I work in the same soup kitchen, helping to feed a few hundred people. (We're the proud turkey carvers!) The experience has never failed to reinforce how grateful we are for what we have.

As much charitable work as I may think I do, I'm aware of clients who put me to shame. Their efforts have brought life altering changes to many people, and I hope they realize how many lives they've improved. Regretfully, despite the efforts and money contributed by so many, there's a limitless amount of more work to be done.

Doing charitable work isn't for everyone, but if you haven't done it in a while, think about re-engaging. You might not find the most fulfilling job the first time around, but don't be dismayed. If you don't try, you'll never know.

Pearl and I have had a variety of experiences over the years, so I'm happy to brainstorm with you if you don't know where to start. (I concede that many non-profits prefer checks to labor, which sometimes makes finding a good fit a little harder. But persistence pays off.)

As for us, we're going to return to the soup kitchen to work in their Farmer's Market. (The Farmer's Market collects overstock food from multiple supermarkets. Individuals can stock up on whatever they need.)



STAN'S WORLD (CONT'D)

Maybe the experience will work for me, or maybe I'll move on. But my goal is to find that new gig in 2018, and I hope you'll consider doing the same.

(NOTE: If you have a moment, share your volunteer experience(s) with us so we can pass ideas along to clients. No names will be used.)

DOES IT REALLY MATTER WHERE YOU LIVE?

As a matter of fact, in terms of life expectancy, where you live matters a lot, but only if you agree that an increase in life expectancy of up to 20 additional years is significant.

According to an analysis¹ of census data between 1980-2014, over the course of the subject time period, life expectancy at birth in the US increased by 5.3 years (73.8 to 79.1). Men added 6.7 years (70 to 76.7) while women added 4 years (77.5 to 81.5).

If you look at a color-coded map depicting life expectancy by county, the story takes on a different meaning, because life expectancy across the US is far from uniform. If you're fortunate enough to be born in the county with the longest life expectancy (Summit County, CO), you can expect to live an astounding 86.8 years. Tragically, being born in other parts of America (i.e. parts of North & South Dakota, West Virginia, Kentucky, Mississippi, or Alabama) life expectancy drops by as much as 20 years.

Risk factors that explained 74% of the variation in longevity include obesity, lack of exercise, smoking, hypertension and diabetes. Socioeconomic factors (i.e. poverty, income, education, unemployment and race) were significant in explaining 60% of the variation, while access to quality health care was a factor in 27% of the gap.

If you think you live in an area that's not conducive to a healthy lifestyle and environment, move. Your life may depend on it.

BY THE NUMBERS³

- **China's** economy is the 2nd largest in the world behind the US, but China's GDP per person is only \$9,377 while the USA's GDP per person is \$61,687.
- **Janet Yellen** took over as Fed Chair on 2/3/14, running the central bank for 31 meetings since then. 8 different Board of Governors members have cast 20 dissenting votes to Yellens' interest rate recommendations made at the 30 meetings. None of the 20 dissenting votes were cast by Jerome Powell, a Board of Governors member since 5/25/12, and Yellen's successor as of 2/3/18.
- **US exports** of goods and services to China have increased tenfold since 1999, rising from \$17 billion in 1999 to \$170 billion in 2016.
- Americans filed 150.5 million **tax returns** in tax year 2015. 66% of the returns (99.0 million) paid federal income tax while 34% of the returns (51.5 million) did not pay any federal income tax.
- 54% of the taxpayers (49.8 million out of 92.4 million returns) that reported **adjusted gross income** less than \$50,000 during tax year 2015 legally did not pay any federal income tax.
- An estimated 10,100 Americans will turn **65 years old** each day in 2018. This group represents the 8th year of 19 years of "Baby Boomers" turning age 65.

I LOVE MY KIDS...BUT DO I REALLY WANT THEM CASHING OUT MY IRA AND BUYING A TESLA?

By: John Zeltmann

Meet Abby and Ben. Abby is our 2-year-old daughter. Readers of this newsletter have already met Ben (5 years old) in a

[recent article](#) espousing the benefits of teaching personal finance to children at an early age.

While Abby and Ben are great kids, there's at least one thing I'm not ready to hoist upon them should my wife and I meet a premature demise: our retirement plan balances and life insurance proceeds.



Should the unthinkable happen, just imagine a house filled with every Lego structure on the market and multiple walk-in closets (previously bedrooms) filled with American Girl doll outfits. Or worse, fast forward a few years, and now the kids have the means to land a self-driving (flying?) Tesla. That's the risk we're talking about here, folks.

How can you prevent against such outcomes? It all begins with a conversation with your estate planning attorney to make sure your assets are set up to flow appropriately upon your death (i.e., to the right person/entity in the most tax-efficient manner). A big part of that process is driven by beneficiary designations on your retirement accounts (e.g., IRAs, 401(k)s, Roth IRAs) and life insurance products (e.g., death benefits, annuities).

BY THE NUMBERS³

- The 6.75 million tax returns from tax year 2015 that reported at least **\$200,000 of adjusted gross income** (AGI) represent 4% of all the tax returns filed, received 43% of all AGI nationwide, and paid 59% of all federal income tax in 2015.
- In the 70 years from 1947-2016, the **S&P 500** had 27 declines of **at least 10%** (but less than 20%) or one every 2.6 years. A correction is defined as a stock market decline of at least 10% but less than 20%.
- In the 70 years from 1947-2016, the S&P 500 had 11 declines of **at least 20%** or one every 6.4 years. A bear is defined as a stock market decline of at least 20%.
- The last **10% correction** for the S&P 500 was a 13.3% drop over the 3 months that ended 2/11/16. The last 20% or more bear for the S&P 500 was a 56.8% drop over the 17 months that ended 3/9/09.
- For the 7 years from 2010-2016, the S&P 500 experienced 417 trading days in which the index gained or lost **at least 1% total return** for the day, an average of 60 per year. YTD, the S&P 500 has produced just 9 trading days with at least a 1% move.
- 23% of **health care spending** in the US is incurred by just 1% of Americans. The healthiest 50% of Americans account for just 3% of total health care spending nationally.



I LOVE MY KIDS...BUT DO I REALLY WANT THEM CASHING OUT MY IRA AND BUYING A TESLA? (CONT'D)

Generally speaking, we'll defer to your estate planning attorney to direct how best to set up beneficiaries for the retirement accounts we manage. The typical beneficiary setup is for a married individual to list a spouse as primary beneficiary and children as contingent beneficiaries. If you're not married, it's common to designate a sibling, charity, or close friend as primary/contingent beneficiaries.

If the children are minors at the time of drafting the designation, consider either incorporating a trust for the benefit of the minor children or deferring to a court-appointed guardian of the minor's estate. The former is costly upfront because it requires inclusion in your overall estate plan while the latter can be costly and add delays to the winding down of your estate. There's a strategy that fits your needs, and we're here to work with you and your estate planning attorney towards fitting it into your overall financial plan.

This year, I was so busy reminding clients to make sure their beneficiary designations were up-to-date that I failed to stay on top of my own. While everything listed my wife as the primary beneficiary, a few designations listed our children as contingent beneficiaries. One even completely omitted our younger child because I hadn't updated that account since she was born.

We've spent considerable time reviewing beneficiary designations to make sure they're current. In many instances, we've uncovered issues, including beneficiary designations listing former spouses, deceased parents and minor children.

Consider adding beneficiary designations to your 2018 to-do list. While your kids (or grandkids) might be disappointed when they learn they've lost the potential for a spending spree, it might be just what you need to rest more comfortably in the New Year.

BY THE NUMBERS³

- The **US economy grew by 4.2%** per year over the 24 years from 1950-1973, 3.2% per year over the 27-year period 1974-2000, and 1.8% per year over the 16-year period 2001-2016.
- **Phoenix** was the 99th largest city in the US in 1950 with 107,000 people. Phoenix is currently the 5th largest city with 1.6 million people.
- **Detroit** was the 5th largest city in the US in 1950 with 1.9 million people. Detroit is currently the 23rd largest city with 673,000 people.
- An estimated 35% of the **jobs to be created in the next decade** (i.e. 4 million of 11.5 million projected new jobs) will be in health care and social assistance. 91% of the new jobs (10.5 million) will be in service-providing jobs as opposed to goods-producing jobs.
- Only **36% of all jobs in the US require education** beyond high school (i.e. 64% of American jobs require a high school diploma or less). 27% of jobs do not require any formal educational credentials.
- 1 out of every 4 Americans who reach age 65 will **live** at least another 25 years.
- 10 years ago, it cost \$10 million and took several weeks to sequence a **genome** (i.e. mapping out a person's entire genetic code). Today, the work can be completed for \$1,000 in just a few hours.



WHEN GOOD MONEY HABITS TURN AGAINST YOU...

As published in the Wall Street Journal², the author, Dr. Meir Statman, states: “The mind-set that works so well as people are building their nest eggs can damage their quality of life in retirement.” In other words, you spend a lifetime learning to save money, and then you reach a point (i.e. retirement) where those savings have to be spent to fund the rest of your life. Statman also makes the following points:

- **Conscientiousness is a double-edged sword:** If you were frugal for decades in order to accumulate sufficient assets that would allow you to retire, that’s probably a mindset that you may not be able to overcome once you do retire. Frugality, for better or for worse, may haunt you in retirement.
- **It’s all in how you frame it:** If your intent is to live on income generated by your portfolio and not to touch your principal, there’s a high probability one of two things will happen. You’ll potentially either take on excessive risk by seeking high yield focused investments or consistently spend less because your portfolio is not earning a sufficient return.
- **The pain of regret:** Spending principal from your portfolio may trigger regret. What’s the fun of spending money if the emotional toll is unbearably high?
- **You’ll die sooner than you think:** While you may be the one out of ten 65-year olds who lives past 95, the greater odds say that won’t occur. If you’re planning a life span that’s too long, you’ll tend to spend too little during those years when you might enjoy it the most.
- **Don’t leave the best for last:** “We have a tendency to put off spending for enjoyment, thinking both that it is financially prudent and that delaying will increase our gratification. That is wrong.” Physical limitations and illness might impact planned spending to the point that gratification isn’t delayed, but denied.

BY THE NUMBERS³

- The total cost of **Medicaid** (\$566 billion in calendar year 2016) is shared between the federal government and the 50 state governments. Nationally the split of Medicaid expenses is 57% paid by the federal government and 43% paid by state governments.
- The national **homeownership rate** in the US is approximately 63.9%, down from a peak of 69.2% as of 12/31/04. Every 1 percentage point reduction in the homeownership rate represents 1.2 million households that have changed from homeowner to renter status.
- There are 116,169 Americans on a national waiting list hoping to receive an **organ donation**, of which 96,335 people need a new kidney. 20 Americans die each day waiting for an organ transplant.
- Our **country’s 147.0 million employees** are split 85/15 between the private sector (i.e. non-government workers) and the public sector (i.e. government workers).
- The **median sales price of existing homes** sold nationally in October 2017 was 108% of the median sales price of existing homes sold nationally in June 2007 (the peak of the real estate boom), though sale prices in the Northeast have not completely bounced back. The October 2017 median sales price in the Northeast is just 93% of its June 2007 median sales price.



WHEN GOOD MONEY HABITS TURN AGAINST YOU... (CONT'D)

- **Spending isn't just about the price:** Just because you have the means doesn't mean you should spend money because you can. It's about spending on those things that give you pleasure. If you occasionally fly but hate flying coach, flying first class might give you immense pleasure. It might only be a once or twice a year splurge, but you might enjoy it far more than buying a more costly car just because you can afford to do so.
- **It's better to give with a warm hand, than with a cold one:** My parents used to give us very generous monetary gifts. I remember telling my dad that we didn't need the money, and I can still vividly recall his reply: "Your mother and I get pleasure out of seeing you buy things now. Why wait until we're gone?" I try to follow the same philosophy.
- **Don't try to beat the market:** While repeating this point may be a bit self-serving, Dr. Statman advises retirees not to manage their own money. Retirees can't afford to fall back on their human capital and earn their savings all over again if they suffer irreparable losses, and that's an unbelievably painful lesson to learn.

BY THE NUMBERS³

- 1 of every 3 Americans (33%) **lives in just 4 states:** California, Texas, Florida and New York. These 4 states were home to 107.5 million citizens at the end of 2016 (out of a total of 323.1 million Americans).
- **Permits for the construction** of 6.14 million single family homes were issued during the 4 years of 2003-2006. Permits for the construction of 6.08 million single family homes were issued during the 10 years of 2007-2016.
- A 1986 **federal law requires hospitals to provide emergency service** regardless of a patient's ability to pay. Every uninsured person costs a hospital an average of \$900 per year in uncompensated care.



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 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.*

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

E-mail:

Stan Ehrlich: stan@sfehrlich.com

John Zeltmann: jzeltmann@sfehrlich.com



¹ Dwyer-Lindgren, Laura, et al. "Inequalities in Life Expectancy Among US Counties, 1980 to 2014: Temporal Trends and Key Drivers." *Journal of the American Medical Association*, July 2017.

² Statman, Meir. "When Good Money Habits Turn Against You." *The Wall Street Journal*, 24 Apr. 2017.

³ "By The Numbers." *Direxion ETFs & Funds*, 13 Nov. 2017 through 18 Dec. 2017.

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