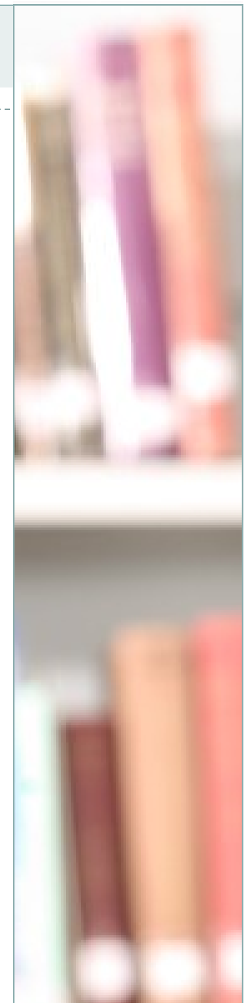
S.F. EHRLICH ASSOCIATES, INC.

February 15, 2019

Managing YOUR Money



STAN'S WORLD

Financial planning is part art and part science. The science portion relates to the use of academic studies to construct portfolios with various levels of risk that can be used to provide retirees a certain level of income for their lifetime. The art element is equally important because we deal with individuals, and each individual has unique needs, disciplines, and tolerances.

While we know that the stock market historically goes up more than it goes down, we never know how it will perform on any given day, week, month, or year. In response to the reality we find ourselves in every day, we build portfolios that attempt to address client needs for both the short and long term. To accomplish that task, we use the concept of buckets, deliberately designed to protect investors from severe market shocks. (Younger investors, with a significantly longer time frame ahead of them, don't require too much protection from market volatility.)

Christine Benz, the well-respected Director of Personal Finance for Morningstar, recently wrote[1] that 2018 was a great year for the bucket strategy. "(L)ackluster to horrible years like 2018, 2009, and 2002 underscore the virtue of maintaining a cushion of safe assets to use for expenses. Importantly, that cash cushion would prevent a retiree from having to raid depreciated stock or bond holdings to pay the bills. Additionally, holding a component of cash and short-term bonds might even allow for adding to depressed stock and bond positions during periods of market weakness."

In our practice, Bucket 1 is filled with cash and/or money market assets to fund annual expenses for the ensuing 12 months. Bucket 2 contains money market funds and/or short-term bond funds, set aside to fund years 2-5. Bucket 3 may include multi-sector bond funds, designed to fund expenses for years 6-10. The final bucket, Bucket 4, is filled with equities. The strategy is to use the less volatile buckets (1-3) to fund cash flow needs should the equity markets fall and require time to recover.

A rising stock market allows for Bucket 4 to 'pour' into the other buckets. As markets don't always rise, the strategy includes receiving dividends paid by mutual funds as cash (as opposed to being reinvested into mutual funds or stocks) to allow us to add to Buckets 1-3, even during down years.

STAN'S WORLD (CONT'D)

But the practice of adding safety to a portfolio comes with a cost. It states the obvious to say that in those years when stock markets run, the fixed income, cash, and money market funds in Buckets 1, 2, & 3, are a drag on performance. That means if Bucket 4 goes up 20%, it's highly unlikely that Buckets 1, 2 & 3 will do the same. But when markets fall, there's nothing better than knowing that there's a large parachute to slow down the drop and ensure cash will be available next month and for years thereafter.

I've used this line too many times, but it rings true when talking about how we invest for our clients. We're not here to make you rich; we're here to make sure you don't become poor.

TRAVELLING WITH MEDICARE: NOT AS COVERED AS YOU MIGHT THINK

If you're a senior on Medicare and you get sick while traveling abroad, let us try to help you calculate your out-of-pocket expenses should you get ill. The answer: Probably every dime you're charged will come out of your pocket. As pointed out by Mary Beth Franklin writing in Investment News[2] : "Medicare…stops at the US border, and even the most generous supplemental Medigap policy provides limited coverage overseas." (NOTE to clients who are not on Medicare: your health insurance policies may not provide any coverage either.)

Franklin offers two options:

- ***Travel insurance***: Includes insurance for trip cancellation and trip interruption, along with lost luggage coverage. Most importantly, it includes medical coverage with minimal or no deduction, and medical evacuation coverage.
- ***Medical only travel insurance***: Includes medical evacuation and medical insurance.

Adds Franklin: "Travel insurance is a time-sensitive purchase. It's best to purchase as soon as you book a trip."

BY THE NUMBERS[4]

- 50.2 million of the 150.3 million **tax returns** filed in tax year 2016 (the latest year tax data is available), legally did not pay any federal income tax, i.e., 33% of all returns paid nothing. The remaining 100.1 million tax returns paid $1.45 trillion of federal income tax.
- Although 33% of the 150.3 million **tax returns** filed in tax year 2016 did not pay any federal income tax, the average adjusted gross income of these "zero payers" was only $12,900.
- The **"total fertility rate"** (TFR) of US women in 2017, defined as the expected number of lifetime births per 1,000 women given current birth rates, was 1,765.5, the lowest number reported since 1978 (1,760.0). A TFR of 2,100.0 is considered the level for a population to replace itself.
- Since 1926, 84% of the rolling **3-year periods for the S&P 500 index** (i.e., the 91 separate 3-years beginning 1926-28, then 1927-29, . . . 2016-18) have produced a positive return. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

HOW MUCH DO YOU HAVE TO SAVE FOR A CHILD'S COLLEGE EDUCATION (AND WHO CAN AFFORD TO DO IT?)

By: John Zeltmann

While it might be logical to assume that most parents (and grandparents) would like to pay for their children's (or grandchildren's) college education by funding 529 plans, it's probably even more likely that most haven't calculated how much money they'll need to save each year in order to do so. (The exercise is frightening, so avert your eyes if you're an individual who scares easily.)

According to Consumer Price Index data[3] from the U.S. Bureau of Labor Statistics, between 1978 and 2018, college tuition experienced average annual inflation of 6.82%, compared to an overall yearly inflation rate of 3.47% during the same period.

Using John's three children as an example, here's how much would have to be saved annually to cover their future college expenses:

Name	Ben	Abigail	Cooper
Age	6	3	4 mos
Years until college	12	15	18
Assumed cost of college (private, 4-year college, today's dollars)	$50,900	$50,900	$50,900
Assumed rate of return	5.0%	5.0%	5.0%
Annual savings required	$21,157	$17,896	$15,763
Lump sum required today	$228,678	$235,140	$241,784

*Calculations available upon request.

Unless you're a Kardashian, saving for the full amount of a child's future college obligation is probably unrealistic. So what's an anxious parent (or grandparent) to do?

- ***Save for yourself first***: Saving for retirement should always be the top priority. Never forget the adage: "You can borrow to pay for college, but you can't borrow to pay for retirement." Are you (and your spouse?) contributing to your employer-provided retirement plan? You should at least contribute enough to capture whatever employer match is available. Once you've fully captured the employer match, consider maximizing contributions to your retirement plan if cash flow allows.
- ***Save for college second:*** Each savings goal should be looked at as a separate bucket to fill. If the retirement buckets are being filled, the next bucket is education. Funding a 529 plan (or multiple plans for multiple children) would allow those investments to benefit from tax-deferred growth for both goals.

HOW MUCH DO YOU HAVE TO SAVE FOR A CHILD'S COLLEGE EDUCATION (AND WHO CAN AFFORD TO DO IT?) (CONT'D)

- ***Gifts***: Grandparents may be a source of funds to help to fill 529 plans. Whether they provide monetary gifts that can be deposited into an existing plan or open their own 529 plans, these types of cash gifts can help to fill the education bucket.

If you have older children or grandchildren, there are strategies that can be used to better coordinate financial aid and how to time withdrawals from 529 plans. With a lot of money on the line, call us long before it's time to make tuition payments.

WHO DOESN'T WANT TO BE COVERED ON A RAINY DAY?

A client recently emailed to suggest that we remind all our clients of the importance of umbrella insurance. It was a good suggestion.

Regardless of your age, if you own any assets that you want to preserve, adding an umbrella policy helps to protect your assets. The more assets you have, the larger the umbrella policy you should obtain. (Umbrella policies often start at $1 million of coverage.) Many experts suggest one should have enough insurance to at least cover your net worth.

Costs for umbrella policies are relatively low considering the size of the coverage (a $1 million umbrella policy may only cost a few hundred dollars). In essence, the umbrella policy kicks in after other insurance coverage is exhausted, such as when you hit the limit of the liability coverage on your auto policy.

In addition to helping to pay for any judgments that may be awarded against you as a result of a lawsuit, an umbrella policy may also help to pay legal fees or even protect you if a judgment against you includes future earnings. If you have potentially more exposure, such as from owning a rental property, or driving passengers as part of a charitable endeavor, your insurance agent may advise that you buy over and above your net worth.)

The insurance company that writes your homeowner's coverage can usually write an umbrella policy for the lowest premium. After all, isn't a good night's sleep worth a few hundred dollars a year?

BY THE NUMBERS[4]

- This year (2019) is the **3rd year of Donald Trump's 1st 4-year presidential term**. The S&P 500 has been positive on a total return basis during 21 of the last 23 "presidential 3rd-years," i.e., 3rd-years dating back to 1927, including the last 19 in-a-row. The average performance for the S&P 500 during the last 23 "presidential 3rd-years" has been a gain of +16.1%.
- As of 7/01/18, the **population of the USA** had grown +0.62% on a year-over-year basis, the lowest annual growth rate recorded by our country since 1937. Over the most recent 12 months analyzed, our population grew by +2.0 million people, the combination of 3.86 million births, 2.81 million deaths and 979,000 immigrants who became US citizens.
- The **number of Americans at least age 75** is projected to double over the next 20 years, rising from 23 million in 2020 to 45 million in 2040.
- 62% of the 43 million Americans on **Social Security** receive at least 50% of their retirement income via their monthly Social Security benefit.
- The **US population** was 328 million as of 1/15/19, **4.4% of the world's population** (7.55 billion) as of that date, i.e., only 1 out of every 23 humans is an American.

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] Benz, Christine. "Bucket Portfolios Faced a Real Stress Test in 2018." *Morningstar*, 7 Feb. 2019, www.morningstar.com.

[2] Franklin, Mary Beth. "Seniors Need Travel Insurance." *Investment News*, 21 Jan. 2019, pp. 15–15.

[3] Consumer Price Index data, U.S. Bureau of Labor Statistics

[4] "By The Numbers." Direxion ETFs & Funds, 7 January 2019 through 11 February 2019.