



S.F. EHRLICH  
ASSOCIATES, INC.



June 30, 2019

# Managing YOUR Money

## STAN'S WORLD

If you've read Stan's World for a few years, you may recall that I often advocate for volunteerism. While some of us may have more time and opportunity than others to help those less fortunate, I fervently believe that what we take away from volunteering is so much more than we invest. In fact, a recent conversation with an old friend led me to conclude there may even be more at stake than I realized.

The conversation focused on a few subjects, to include how much longer it takes to recover from injuries as we age; the awareness that as we grow older, our runway (i.e., years to live) is obviously more limited; and the realization that aging employees may not be as appreciated by their employers.

But these observations paled in comparison to an admitted sense of despondency on a totally unrelated matter: sadness over what he views as a torn country that shows few signs of healing, accompanied by a feeling of helplessness because there was little he could do about it.

I explained to my friend that long ago I gave up any notion that I would do anything life-changing on a global scale. Having easily accepted that, I was faced with the option of looking at the world from a more micro viewpoint; is there anything I can do within my community that might help a few? And that was my pitch to my friend, look closer to solve problems.

My wife, Pearl, has engaged in numerous charitable organizations since she retired as a special education teacher. One of those charities was a reading literacy program, whereby she met a woman each week in a library to help her to learn English. Later, Pearl learned that the woman had passed the citizenship exam to become a U.S. citizen. I bet earning U.S. citizenship was life-changing to her.

Speak with anyone who drives for Meals on Wheels, and you'll learn that volunteers do so much more than hand someone a meal in a box. Often, the volunteer driver is the client's only personal link to the outside world on a daily basis, a person who can observe changes in physical and mental health and rapidly do something about it. That's life-changing.





## STAN'S WORLD (CONT'D)

As I've written about in the past, it takes work to volunteer. Organizations need money, and many would rather you write a check than offer your time. But there are groups out there doing good work who are looking for someone just like you. It may take a little time and effort to find one, but hopefully you'll ultimately find that changing the world one person at a time is just the elixir that you need.

## LIFE EXPECTANCY IN YOUR FINANCIAL PLAN

While a study involving Google and the DNA website, Ancestry.com, notes that our DNA may not play as big a role in our life expectancy as we all assume, a subsequent study published in the journal, Circulation, highlighted how we can take responsibility to increase our lifespan.

As noted in Businessinsider.com<sup>1</sup>, the study noted "five life-style factors that appear to be linked with a significantly longer lifespan:"

- Do at least 30 minutes of cardio exercise every day.
- Eat a Mediterranean diet.
- Never smoke.
- Stick to a healthy body weight.
- Drink no more than 1-2 alcoholic beverages a day.

In addition, "scientists have uncovered a handful of personality traits that also appear to be linked" to longer lives.

- Conscientiousness, or being less likely to take risks but more likely to be thorough and efficient.
- Openness, or being willing to lend an ear to new and different ideas and concepts.
- Emotional stability.
- Friendliness.
- Being able to openly express one's feelings.

"Taken together, the findings suggest that how long we live may be less a matter of what we're born with than the circumstances in which we live and the choices that we make."

## BY THE NUMBERS<sup>5</sup>

- During the index's **bull run** that started on 3/19/09, the **S&P 500** has withstood 12 drops of at least 5%, including 6 drops of at least 10% and 3 drops of at least 15%.
- Between 1950 and 2018, the **US population** doubled from 159.1 million to 332.8 million while the number of Americans at least age 65 quadrupled from 12.8 million to 52.4 million.
- From 1950 to 2018, the **life expectancy** of a 65-year-old American male has increased from 12.8 years to 18.1 years, i.e. an increase of 64 months. From 1950 to 2018, the life expectancy of a 65-year-old American female has increased from 15.1 years to 20.6 years, i.e. an increase of 66 months.
- 23% of working Americans **save nothing** from their monthly income for their future retirement.
- YTD through Friday 5/17/19, approximately 6,400 **retail stores** have gone out of business and closed across the USA, more than the 5,864 stores that closed nationwide during all of 2018. This year's closures are on pace to exceed the all-time record of 8,139 store closures in 2017.
- During the 2018-19 school year, American colleges awarded 1.88 million **bachelor's degrees**, down from a record 1.96 million degrees in 2016-17.



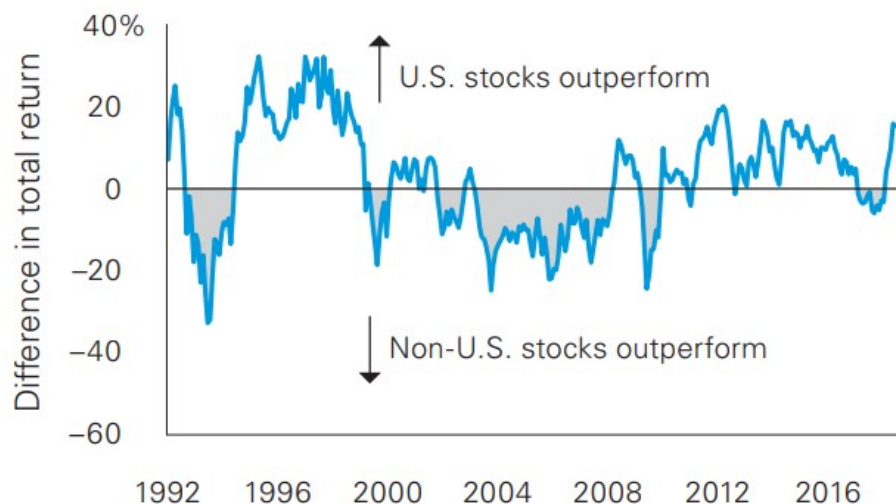
## EMBRACING A GLOBAL STOCK MARKET: WHY BUY INTERNATIONAL STOCKS?

When the U.S. stock market goes up, it's only logical to question why there's a need to own anything but U.S. stocks. That argument can be further bolstered by pointing out how many U.S. companies derive sales from international markets. "If I own Coca-Cola, aren't I invested internationally?"

A recent Vanguard paper<sup>2</sup> highlights three major reasons to invest internationally:

1. Changing market leadership: "The rationale for diversification is clear. U.S. and international stocks often swap positions as performance leaders...Global diversification gives you a chance to participate in whatever region is outperforming at a given time."

### Trailing 12-month return differential between U.S. and non-U.S. stocks



Sources: Vanguard and FactSet.

**Notes:** U.S. equities are represented by the MSCI USA Index; non-U.S. equities are represented by the MSCI World Index ex USA from January 1, 1970, through May 1987, and MSCI All Country World Index ex USA thereafter. Data are through September 30, 2018.



## EMBRACING A GLOBAL STOCK MARKET: WHY BUY INTERNATIONAL STOCKS? (CONT'D)

2. Positive international outlook: "U.S. stocks have had a great run, but will that continue? From a U.S. investor's perspective, the expected return outlook for non-U.S. stock markets over the next 10 years is 8.4%, higher than that of U.S. stocks (5.1%)."



**IMPORTANT:** The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Simulations are as of September 30, 2018. Results from the model may vary with each use and over time.

Sources: Vanguard, Dimson-Marsh-Staunton Global Returns Dataset, FactSet, Morningstar Direct, and Thomson Reuters Datastream.

Notes: All returns are nominal and unhedged. Data for the last 30 years are from January 1987 to December 2016, in U.S. dollars. Data for the next ten years are based on the median of 10,000 simulations from VCMM as of September 30, 2018, in U.S. dollars. Historical returns were computed using indexes defined in "Indexes used in our historical calculations" on page 5 of *Vanguard economic and market outlook for 2019: Down but not out*. Historical cash returns are from Dimson-Marsh-Staunton Global Returns data.

3. Volatility reduction: "Having a mix of international and U.S. stocks has historically tamped down the volatility in portfolios. Of course, it's natural to be concerned about geopolitical risk, but having a mix of U.S. and international can actually reduce portfolio risk. It's true that correlations have increased between U.S. and international markets as globalization has taken hold, but including international stocks in your portfolio still carries diversification benefits because of less-than-perfect correlations due to differences in economic cycles, fiscal and monetary policies, currencies, and sector weighting."

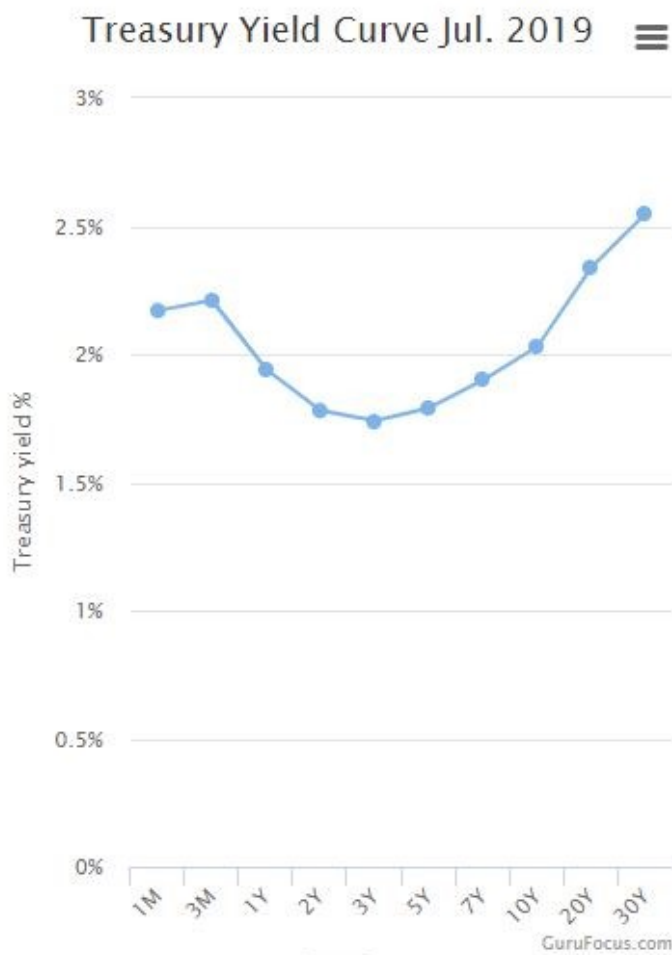
As to why U.S. based companies with international sales can't provide the same benefits as owning international stocks: "U.S.-headquartered multinational companies alone don't provide enough exposure because a big chunk of the world economy is still driven by companies with headquarters outside the United States."



## WHAT'S AN INVERTED YIELD CURVE? WHAT DOES IT MEAN FOR YOU?

It's possible you may have heard the term inverted yield curve by reading about it in a financial publication<sup>3</sup> or while aimlessly surfing through the 500 channels offered by your cable provider.

Simply put, an inverted yield curve means the yield on a Treasury bond that matures in 10-years is lower than the yield provided by a Treasury certificate that matures in 3-months. This relationship shows the lack of confidence investors have in longer term bonds and is considered an indicator that a recession is coming. When that 'curve' slopes down, it represents an inversion.



## BY THE NUMBERS<sup>4</sup>

- Just 15% of **plastic is recycled globally**, i.e., 85% of plastic ultimately is burned, dumped into a landfill or dropped into the ocean. A 65-year old American couple has a 48% chance that at least one of them will live to age 90, i.e., at least a **25-year life expectancy**.
- Our nation's "**general fertility rate**," defined as the number of births per 1,000 women between the ages of 15-44, was just 59.0 births in 2018, a record low for birth data that has been tracked nationally since 1909 or for the last 110 years.
- Of individual tax returns filed in calendar year 2010, 1.11% were audited or 1 out of every 91 returns. Since then, the **audit rate has fallen** for 7 consecutive years to 0.59% for individual tax returns filed in calendar year 2017, equal to 1 out of every 169 returns.
- An estimated 40% of this year's **college graduates** will be "**underemployed**" with their first job, i.e., they will take a job for which they are academically overqualified.
- The average American worker who retires next year (in 2020) will have paid \$135,000 in **Social Security taxes** during his/her working lifetime, less than the \$193,000 in Social Security retirement benefits that he/she is projected to receive.





## WHAT'S AN INVERTED YIELD CURVE? WHAT DOES IT MEAN FOR YOU? (CONT'D)

As noted by Vanguard<sup>4</sup>, "Historically, an inverted yield curve typically lasting more than a month has reliably predicted recessions. In fact, since 1970, an inverted yield curve has preceded all seven U.S. recessions. The time between an inverted curve and the subsequent recession has ranged from 5 to 17 months."

Is this time different? While there's no doubt a recession is in our future (recessions are an inevitable component of all business cycles), a recession may not necessarily be in our immediate future. The argument for a delay in the onset of a recession is that the economy is in generally good condition. Households, for example, don't hold the debt they held during the Great Recession. Similarly, we don't have the housing bubble that we had 12 years ago that negatively impacted the economy in 2008-2009. Also, the debt held by corporations has a much lower interest rate than it did in 2008, which means companies are better able to service that debt.

There are other events that can potentially impact the severity and even the timing of the next recession. The best action to take in the interim? Rebalancing portfolios. Trying to time the market – like predicting when a recession will occur and how much the stock market may fall – is still a bad option.

## BY THE NUMBERS<sup>4</sup>

- The average American worker who retires next year (in 2020) will have paid \$36,000 in **Medicare taxes** during his/her working lifetime, far less than the \$229,000 in Medicare benefits that he/she is projected to receive. The projected lifetime benefit total is net of Medicare premiums paid by the retiree. A 65-year old American couple has a 48% chance that at least one of them will live to age 90, i.e., at least a **25-year life expectancy**.
- The **first recipient of a monthly Social Security retirement benefit** in January 1940 was 65-year old Ida May Fuller of Vermont. During the 3 years before Fuller retired, she paid \$24.75 in payroll taxes (in total, not per year). Fuller lived another 35 years before dying at age 100 in 1975. During her retirement, Social Security paid Fuller \$22,889 in retirement benefits, i.e., she received \$925 of benefits for every \$1 she paid into the program.
- By the year 2035, the **number of Americans at least age 65** (projected to be 78.0 million) will exceed the number of Americans under the age of 18 (projected to be 76.4 million), the first time in our nation's history that has occurred.
- The 4 **most overvalued housing markets** in the world today are Hong Kong, Munich, Toronto and Vancouver.



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

<sup>1</sup> Brodwin, Erin. "Google's Life-Extension Spinoff Teamed up with Ancestry to Study 54 Million Family Trees." [www.businessinsider.com](http://www.businessinsider.com), 10 Nov. 2018.

<sup>2</sup> Staff, Vanguard. "Embracing a global stock market." *Market Perspectives*. 3 June 2019.

<sup>3</sup> Nathanson, Michael J., et al. "Gauging the next Recession's Severity." *Financial Advisor Magazine*, June 2019, pp. 35–38.

<sup>4</sup> Staff, Vanguard. "What the inverted yield curve might mean." *Market Perspectives*. 20 May 2019.

<sup>5</sup> "By The Numbers." Direxion ETFs & Funds, 13 May 2019 through 24 June 2019.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by S.F. Ehrlich Associates, Inc. ("SFEA"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from SFEA. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. SFEA is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of SFEA's current written disclosure Brochure discussing our advisory services and fees is available upon request. If you are a SFEA client, please remember to contact SFEA, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services.