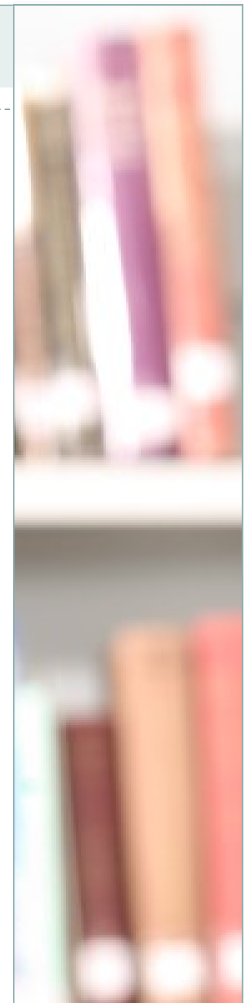
S.F. EHRLICH ASSOCIATES, INC.

March 31, 2019

Managing YOUR Money



STAN'S WORLD

A recent phone call with an old friend led to a lengthy discussion on where to live in retirement. We touched all the bases: aging in place, independent living within a senior community, assisted living, and nursing care. The conversation paused, however, when I was asked the question: "How do you know when it's time to go?"

It's a great question. While I suspect no two answers are alike - because our individual circumstances are all so different – there are a few common threads to help us make the decision as to what's next. Aside from spending years addressing these issues with clients, listening to experts at conferences, and reading what feels like a bazillion articles on the subject, Pearl and I are fortunate to each have a 97-year old mother. In other words, I have a little familiarity in this field, so whether you're a senior, or have senior parents, read on while I share some life experiences.

Everything works until it doesn't. That's my go-to phrase when it comes to discussing anything with a senior. It's the line I use whenever someone tells me they're going to stay in their home and age in place. It's a wonderful idea until it's not.

Whether by design or by happenstance, my mother has followed a path that I think makes perfect sense for many seniors. When my parents retired, they owned a condominium in Westchester, NY. They planned to buy a house in Florida and spend six months a year in each location.

That plan fell apart early because my parents were fortunate to buy a house in a very welcoming 55+ golfing community. (I guess I should add that neither of my parents had ever played golf.) They made friends quickly (everyone who moved there was in the same boat; relocating to Florida and looking for friends), and became regular golfers. It didn't take long until I got the call to sell the condo; they weren't coming back.

That lifestyle lasted until my dad passed away 15 years later. Rather than immediately sell her home, my mother listened to friends who suggested she live there for a year and figure out what she wanted to do. About a year later, she moved into a condominium in a nearby senior community. She had quickly learned that friends who are couples don't associate as much with singles, so it was time to make new friends.

STAN'S WORLD (CONT'D)

The new community also included a golf course, so my mother was able to find ladies to golf with, partners for bridge, and fellow mah-jongg players. Fortunately, the realtor who sold her the condominium suggested a building right next to the clubhouse, so it was easy for my mother to walk to and fro for all the amenities the community had to offer.

While there, my mother and a group of her friends started looking at independent living communities, because they all realized there was another move to come. They would collectively visit communities, deciding which features they liked, and which amenities were missing. Over time, some moved away, while others kept looking.

When my mom turned 87, she told me she didn't want to drive anymore, and was tired of eating alone on the days when she didn't have anyone to eat dinner with. In other words, it was time to go.

While her initial reaction was to find a community in or around Boca Raton (for the typical reasons: weather and doctors), we managed to lure her up north by finding a community that checked virtually all the other boxes. It was large (2,000 residents) which meant a multitude of facilities (medical center, restaurants, climate-controlled walkways between all buildings), services (home care aides, transportation, security) and social (clubs, communal dining for dinner). Plus, it offered a continuum of care: independent living, assisted living, and nursing care.

Over the 10 or so years since my mom has lived in Cedar Crest Village in Pompton Plains, NJ (an Erickson Living community; but I don't earn any commissions by stating that), it has fulfilled all of her needs. While her journey wasn't necessarily a straight line (they rarely are), she has managed to thrive along the way.

BY THE NUMBERS[4]

- Since 1950, there have been 60 different 10-year periods (i.e., the 10-years from 1950-59, 1951-60, 1952-61, . . . 2009-18). The **S&P 500 has produced a positive total return result in 58 of the 60 decade-long periods**, i.e., 97% of the time. 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.
- 9 of the last 10 **recessions** in the United States began under a Republican president going back 66 years to 1953. The only recession over this time span that began with a Democratic president in the White House was a 6-month recession that began in January 1980 during Jimmy Carter's last year as president.
- **Foreign investors**, led by China and Japan, held \$6.2 trillion of **US Treasury** securities as of November 2018, just under 40% of total US Treasury debt. That's the lowest percentage held by foreign investors in the last 15 years.
- Outstanding **student loan** debt in the USA was \$1.46 trillion as of 12/31/18, up +128% from \$640 billion as of 12/31/08.

STAN'S WORLD (CONT'D)

So what lessons have been learned from watching others take this journey?

- One of the fears I routinely hear when I suggest moving to an age-restricted community is not knowing anyone. It doesn't take long to meet people in many of these communities because many residents are also looking to make friends and do things. Moving to a community with a clubhouse is vital in that regard (along with a social worker and/or activities director).
- Sooner is better than later:
  - ◊ Part A: Money. Many independent living communities have buy-ins, which means paying X dollars to 'own' your own apartment. (In many cases, a large percentage of those dollars are returned to heirs upon death.) If you can't pass the financial screening because you've used up your assets while living elsewhere in retirement, you won't be able to get in.
  - ◊ Part B: Health. Sometimes, things happen in life that prevent us from doing that which we planned. If you live at Cedar Crest Village and break a hip, you can get rehab at the Physical Therapy Center, have an aide help you in your apartment, get visited by a nurse to help with medication, and/or have a short-term stay in the assisted living unit. If you live at home, you have to figure that out on your own.
- Doctors: Large independent living communities either have a in-house medical staff or attract doctors to the immediate vicinity because they have so many aging residents with a potpourri of medical issues. While your current dentist/internist/podiatrist may be the best in the world, you'll be able to find the second best at your next stop.

But when to go? To use another well-worn expression, the good news is we're all living longer, and the bad news is we're all living longer. Absent a health or other significant issue, retirees might be best served by waiting until they approach 80 (if possible) before relocating to an independent living community. The reason: the populations of those communities are aging as many of us live longer. If you move into a large community and you're younger than everyone else by 10 years, you may feel out of place for a while. The goal, of course, is to make the move without regret.

In the meantime, if you are a senior, visit communities. Ask if you can spend a night so you can walk around during the day and see if the population is active. Eat meals with residents so you can learn about who's living there. (Walking through the dining hall during the dinner hour is a great way to gauge the age of the residents.)

If you have an interest, like reading, and you learn the community has an active book club, show up for a meeting. In other words, explore the possibilities. In the end, armed with information, you'll not only know when it's time to go, but where.

YOU HAVE A FINANCIAL PLAN—WHAT ABOUT YOUR KIDS?

By: John Zeltmann

Stan and I will both tell you we have one of the greatest jobs in the world. Helping people plan for their retirement while making financially sound decisions during their working years is an incredibly rewarding vocation. Daily, we get to help people figure out how to reduce tax bills, determine appropriate levels of life insurance, plan for college, and prudently grow their portfolios over time. Those are just some of the highlights.

When we have those types of conversations with the children of our clients, the rewards can be just as profound. On numerous occasions, we've had the opportunity to speak with younger clients-in-waiting to help them tackle problems they're facing. Depending on their age, we might discuss savings, investments, renting vs. owning, et al.; the kinds of discussions that can pay big dividends down the road.

These types of dialogue can even extend to the youngest of generations. One of my favorite conversations was with the 11-year-old son of a client, who we'll call Tim. Through summer jobs and a bit of entrepreneurial sweat, Tim had managed to save up a few thousand dollars in his bank account. My client, also an entrepreneur, saw this as an excellent opportunity to educate Tim on the stock market, so we set up a call.

"Hello? Mr. Zeltmann?" said a shy, high-pitched voice when I picked up the phone. The shyness soon faded; he wanted to talk about investing in the stock market. Specifically, he wanted to discuss Nike (he was a big Tiger Woods fan), Hasbro (the company that owns Nerf), and Game Stop (pre-Amazon, where video games came from). While we discussed his "buy list," I highlighted some risks and opportunities, making sure he understood that just because he likes a company's product doesn't make it a good investment.

BY THE NUMBERS[4]

- The **average college graduate** with a bachelor's degree will earn $2.8 million over his/her lifetime. The average high school graduate with no additional higher education will earn $1.5 million over his/her lifetime.
- An estimated 10,400 Americans will turn 65 years old each day this year (2019). This group represents the 9th year of 19 years of "**Baby Boomers**" turning age 65. An estimated 11,500 Americans will turn 65 years old each day in the year 2029.
- Population data for the 12 months ending 6/30/18 showed that Florida added the largest number of Americans (+132,602) who **relocated** to its state, i.e., "net domestic migration," while the state of New York was the largest population loser (a decline of 48,510).
- For the average American household, **mortgage debt** represents 67% of total household debt. Aggregate household debt (e.g., mortgages, credit cards, auto loans) as of 12/31/18 was $13.54 trillion. Aggregate mortgage debt as of 12/31/18 was $9.1 trillion.
- 23% of 3,462 American workers surveyed admit that they live "**paycheck-to-paycheck**" all the time.

YOU HAVE A FINANCIAL PLAN—WHAT ABOUT YOUR KIDS? (CONT'D)

I'm sure Tim didn't understand most of what I said, but what 11-year-old would? Frankly, our conversation wasn't about buying stocks, it was about educating Tim. In fact, an argument could be made that a positive outcome would have been if Tim ultimately lost a little money, thus cementing at an early age that while stocks can go up, they can also go down.

Younger people, Tim's age and beyond, have the most to gain by engaging in these conversations sooner than later. To wit:

- College Debt - It's no secret that the younger generation has taken on record levels of student loan debt and for a good reason. A college diploma can get your foot in the door, but advanced degrees can truly lock down a potential job.
- Caring for parents - They call them the "Sandwich Generation" - those caught in the middle of baby boomer parents who are living much longer than expected (and therefore increasing the risk of running out of their own retirement savings) and their children, who generate their own expenses (see College Debt above).
- Growing up in turbulent markets - Many of the younger generations came of "investing age" during two of the most turbulent times in market history - the dot-com crash in 2001 and the 2008 credit crisis. Their faith in the stock market has been understandably tested at a young age, a time when the opportunity to save is most valuable.
- The demise of employer-provided pensions - Over the past few decades, employers have killed off company-funded pension plans in favor of employee-funded 401(k) plans, thus shifting the burden of retirement saving from the employer to the employee. Navigating the variety of retirement plans available in the marketplace often requires assistance.

It's never too early to start learning about investing and planning for one's financial future. Whether your child is an 11-year-old like Tim, a 20-something trying to figure out cash flow and savings targets, or a mid-30-year-old trying to tackle a mortgage, kids, and life insurance needs, encourage them to use us as a resource. Smart decisions today can pay-off handsomely down the road.

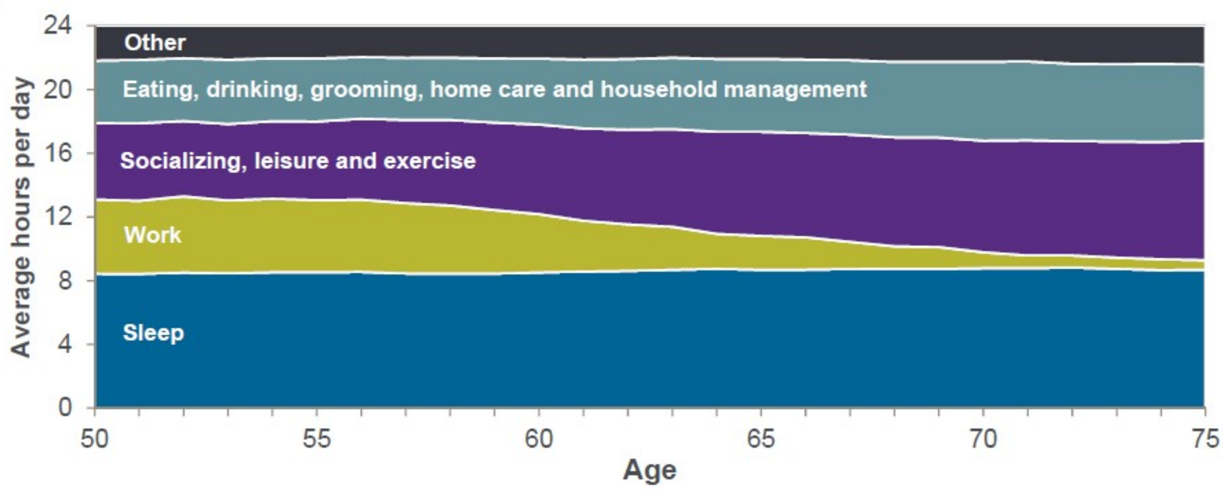
IF YOU'RE 46 AND UNHAPPY, THERE'S GOOD NEWS...

JP Morgan's 2019 Guide to Retirement[1] includes a chart (see below) depicting levels of happiness and stress by age. For married Americans, happiness is lowest at age 46 and then continues to rise on an upward sloping curve all through the 'golden' years. (I wonder if it has anything to do with the kids' finally going off to college.)

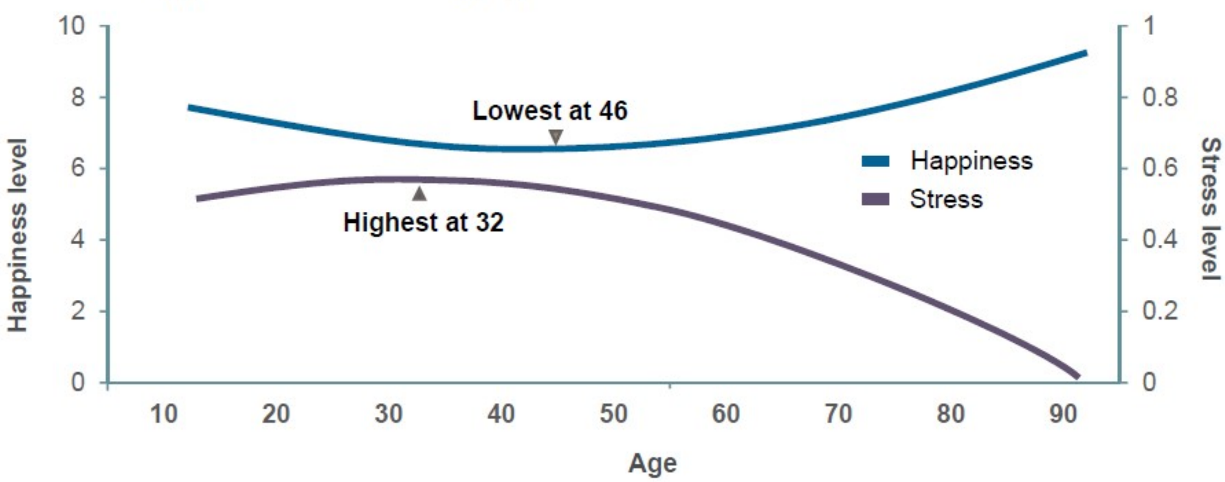
In contrast, stress levels are highest at age 32, which is probably the age that parents kick their children out of their basement to move into their own apartment. In general, stress levels drop thereafter.

The two determinants that appear to cause less stress and more happiness: an increase in time spent each day on the category "Socializing, leisure, and exercise," and a decrease in time spent each day "Working."

Amount of daily hours spent per activity by age



Levels of happiness and stress by age



THE PARENT TRAP—YOUR KIDS COULD BE RUINING YOUR RETIREMENT PLAN

It's difficult to pass on reading an article with that title, but The Parent Trap is the title of a special report found in Barron's[2]. Not only was the title catchy, but the contents are very worthy of sharing.

It's difficult to summarize an article with this type of importance, so we'll try to capture your attention by reviewing some of the highlights:

The Bank of Mom and Dad: Parents have always helped their kids, but the assistance is continuing longer and becoming costlier:

- More seniors are in debt: 70% of 65- to 74-year-olds hold some debt. 39% hold housing debt; more than double the number in 1992.
- College costs are rising.
- Boomerang millennials: A larger share of 25- to 35-year-olds are moving in with Mom and Dad than in past generations.
- The cost of parental love: To help adult children, 50% of parents will take money from savings 43% will live less comfortably; 26% will take on debt; 25% will tap a nest egg; 19% will retire later; 14% will refinance their home; and 8% will come out of retirement.
- Parents now spend twice as much on their adult children than what they contribute to their own retirement nest egg.
- 68% of parents said they would be willing to delay retirement to pay for college.
- 72% of parents say they have put their children's interests ahead of their own need to save for retirement.
- 79% of parents of young adults provide them with some type of financial support.

BY THE NUMBERS[4]

- The **wealthiest 10% of the 122 million households** nationwide own an estimated 84% of all domestic stock values.
- 37% of retired Americans report they **retired earlier than planned** as a result of health problems, buyout packages, layoffs, grandchildren, or caring for an aging parent.
- 5,524 **brick-and-mortar retail stores** closed nationwide in 2018, down from a record 8,139 closures in 2017. Another 2,187 retail stores have closed YTD through 2/09/19.
- In the last 35 years, the percentage of American workers that are **members of a union** has been cut in half, dropping from 20.1% in 1983 to 10.5% in 2018. Hawaii had the highest percentage (23.1%) of union workers in 2018 while North Carolina (2.7%) had the lowest percentage.
- 25.5% of Americans had no claims for any **health care service** (i.e., they did not see a doctor or visit a clinic) or filled a drug prescription in 2017.
- **US Postal Service employment** hit a peak level of 909,000 workers in April 1999 (20 years ago). As of January 2019, the number of postal workers had fallen 33% to 607,000.

THE PARENT TRAP—YOUR KIDS COULD BE RUINING YOUR RETIREMENT PLAN (CONT'D)

- Student debt has become senior debt: The amount of student debt held by people age 60 and over has increased dramatically. In six states (Delaware, Maryland, Pennsylvania, Alabama, Mississippi, and Nevada), the amount has more than doubled since 2012.

How parents support adult children:

- 60% pay for some or all food or groceries. (23% pay the full cost.)
- 54% pay for some or all cell phone expenses. (32% pay the full cost.)
- 47% pay for some or all car expenses. (17% pay for all.)
- 44% pay for some or all school expenses. (22% pay in full.)
- 44% pay for some or all vacation costs. (21% pay the total cost.)
- 36% pay for some or all rent/mortgage. (23% pay for all.)
- 27% pay for some or all student loans. (9% pay the total cost.)

What to do if you're in or heading towards a financial crisis because of spending on an adult child? "For those intent on helping their adult offspring, financial advisors stress running the numbers and bringing the children into the conversation, so they see what their parents can afford, reducing the guilt some parents feel for saying no…In sum, giving to children requires good communications and firm boundaries."

BY THE NUMBERS[4]

- The **Chinese economy** grew by +6.6% in 2018, its lowest growth rate since 1990. The US economy grew by +2.9% in 2018, its best growth rate since 2005.
- There have been **10 bear markets** for the S&P 500 since 1946, i.e., at least a 20% drop from a previous closing high. It has taken 26 months on average for the S&P 500 to bounce back from the low point in the previous 10 bear markets and achieve a new closing high.
- 3 of the top 4 **occupations** projected to create the greatest number of new jobs nationwide between 2016-2026 are in the health care industry – personal care aides (+777,600 new jobs), registered nurses (+438,100 new jobs) and home health aides (+431,200 new jobs).
- **China** had 15.2 million **births** in 2018, nearly 4 times the 3.9 million births in the United States last year.

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] Roy, Katherine, et al. "J.P. Morgan Guide to Retirement, 2019 Ed."

[2] Kapadia, Reshma. "How Your Kids Can Ruin Your Retirement - And How To Make Sure They Don't." Barron's, 22 Mar. 2019.

[3] "By The Numbers." Direxion ETFs & Funds, 20 February 2019 through 25 March 2019.