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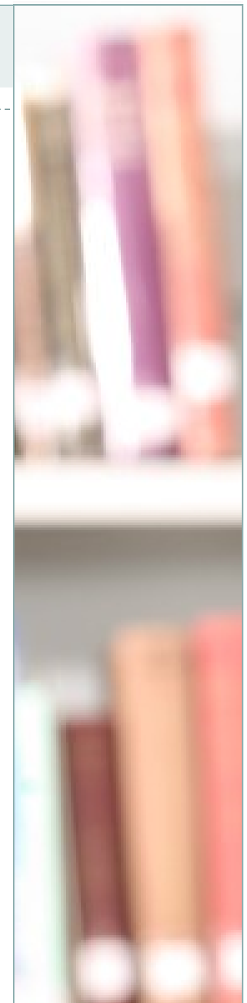
May 15, 2019



Managing YOUR Money

STAN'S WORLD

It's always a bit of a Deja vu moment for me when I wind up in a situation where I have to give myself the same advice I give to clients. When I speak to clients, I often say the words: "I understand," though I may have never had that particular experience. It's an attempt at empathy; acknowledging that I realize you're in the process of making a difficult decision.

Pearl and I are currently engaged in one of the many 'aging' discussions, and it pertains to our house: Should we stay, or should we move?

With a master bedroom on the second floor, our home is not an ideal residence to age in place. Steps are not your friend when you get past (you fill in the age), and the fall risks only increase as we get older.

On the other hand, our family fits here. Everyone can visit, and sleep over, and we can put leaves into the table so we can all sit around it. Like I say to everyone who will hear me, it all works until it doesn't. It's a conundrum many seniors face: "I like my house, but can I age well here?"

Some aging-in-place problems can be resolved with modifications: changing door handles for arthritic hands; widening doorways to accommodate a wheelchair or walker; making bathrooms accessible; adding a chair lift. But there are also problems that can't be addressed with modifications, so the advice we offer to clients is that it's easier to make tough decisions when you're calm and level-headed than when you are in the midst of a crisis.

And then there's the money issue. Obvious expenses include moving costs, sales commissions, and closing costs. If this were a situation involving clients, they would point out that the housing market in Westfield has gone soft – according to our realtor, there are more than 200 homes for sale in Westfield – and they won't get top-dollar for the house if they sell now.

In turn, I would point out that if they were to buy a comparably-priced house – with the coveted first-floor master bedroom – price is not a material issue. After all, if you sell your home in a down market, the house you buy in the same community also dropped in price.

STAN'S WORLD (CONT'D)

Pearl and I have talked through the process of aging, and we agree that even if we were to move now, there might be one (or two) more moves to go. We accept that, but as many clients can relate, making the decision to go, and then implementing it are two different events. (Is that why everyone doesn't immediately act on my words of wisdom?)

Stay tuned for the next chapter.

THE WEALTH MANAGEMENT FUN HOUSE

Many investors aren't aware of the concept of fee-only financial planning, so we're sending along the article below from Financial Planning Magazine[1] because it's the best one we've seen written on the subject in years.

Written by Bob Veres, a well-respected industry observer for decades, it's clearly sarcastic in tone. It's intent, however, is to point out the players in the personal finance marketplace and the incentives behind their compensation.

Please feel free to pass Lost in the Investing Circus to friends and family. They may not enjoy reading it once they learn how their advisors are compensated, but few will be able to argue with its educational value.

By the way, when Veres talks about the boring guys at the end of his column, he's referring to fee-only advisors like us. (Perhaps our new logo? Proud to be Boring!)

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Lost in the Investing Circus: In the wealth management fun house, how can average investors find somebody who will really work on their behalf?

By: Bob Veres

Welcome one and all to the investing carnival of fun! Today, our exciting attractions include, over here, a robot that sits behind a computer and chooses your portfolio for you. Actually, you choose the portfolio based on answering four or five questions, which is how the robot gets to know you on a very deep level.

BY THE NUMBERS[4]

- 48% of households in America headed by individuals at least age 55 have **no retirement savings**, 26% have a **defined contribution** (DC) plan (e.g., 401(k) or IRA) but no **defined benefit** (DB) pension plan, and the remaining 26% have both a DC and a DB plan.
- 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**.
- 1 out of 3 Americans at least age 85 has **Alzheimer's**.
- The US Supreme Court receives approximately **7,000 requests each year** to hear cases that have already been adjudicated in a lower court. The nation's top court accepts just 100-150 cases for their review from the 7,000 petitions.
- The S&P 500's 4th quarter 2018 **loss of 13.5%** (total return) was followed by a 1st quarter 2019 **gain of +13.6%**, just the 6th time in the last 50 years that a "double-digit loss" quarter has been followed by a "double-digit gain" quarter.
- 156.7 million Americans have **full-time jobs** today, 48% of our 328.7 million citizens.

LOST IN THE INVESTING CIRCUS — BY: BOB VERES (CONT'D)

If you have questions, they have a real person you can talk to - after spending an hour or two waiting on the phone. A living, breathing human being right out of college with almost as much real-world experience as that squirrel you can see in your backyard.

Should you do a partial Roth IRA conversion based on a tax situation that would take us way too long to explore over the phone? Who knows? But we'll give you an answer anyway.

Perhaps you'd prefer to visit our next fun house attraction: a fee-based advisor, who might or might not be the top salesperson at his broker-dealer. Of course, he might be mostly fees and mostly a fiduciary who mostly works in your best interests, but he's affiliated with a company that earns a hefty majority of its revenues from various commissions, so, well, trust your luck!

Spin the dial, and check out this hot equity-indexed annuity that the company's due diligence department has approved despite sternly worded FINRA investor alerts about them. They sure are complicated, but when nobody knows how to calculate the gain based on the return of the index that the annuity is linked to, it makes it easier to sell. And what else could possibly be more important about an investment opportunity?

Better yet, your fee-based advisor has a really swell nontraded REIT whose prospectus clearly states that the tempting annual yield in the first year is coming directly out of your investment dollars - and who knows where that yield will come

from in the future? Don't worry, the eagle-eyed due diligence department approves a lot of those deals, because the top sales reps demand it.

Any resemblance to a Ponzi scheme is purely coincidental! Are we having fun yet?

Perhaps you would prefer to entrust your life savings to that indistinct form in a trench coat who is gesturing at you from the dark alleyway outside.

He's a real live broker! Just returned from a wonderful sales incentive trip to Tahiti! See his tan?

The sales incentives did not in any way impact his investment recommendations, so you needn't ask why they all happened to be either managed by his company with higher-than average annual fees, or separate accounts that have revenue-sharing arrangements with the brokerage firm which are definitely not shelf space arrangements (are you listening, SEC?).

It's like choosing any card you want from a deck of cards, except his deck is made up of only jacks and nines. Put your money down, and help him move up the grid!

LOST IN THE INVESTING CIRCUS — BY: BOB VERES (CONT'D)

Over to one of our main attractions, look at those zany clowns all climbing out of that impossibly small car and running around the ring squirting the crowd with seltzer bottles. Aren't they hilarious? No need to worry about a fiduciary standard here: These are insurance agents, who specialize in helping you reach your financial goals by selling you investments that never go down!

That means these wonderful life insurance contracts are technically not investments at all, which is a wonderful thing, because these agents also happen to not be licensed to sell you an actual investment product.

But their products do have an account value that grows mysteriously over time, and you can borrow your own money back from your own account for income!

Think about it, your own money becomes tax-free income! Is that not an exciting investment concept?

It's a mystery why nobody ever buys these products voluntarily, without one of the clowns explaining their many advantages.

Or, for that matter, why people don't just eliminate the middle person and earn income out of their own checking account.

Even more exciting, the company takes out a growing amount of money for insurance protection, so when you die, your heirs will be taken care of.

Of course, you can get this same protection from a term policy, and know exactly how much you're paying, but this is part of the excitement of these cash value life contracts: you have no idea how much you're paying for coverage. And the company can raise this amount at any time! Check the fine print. Uh-oh, they've caught you using that magnifying glass. Watch out for the seltzer bottles!

And don't even think about looking for the commissions they're earning when you invest with them. You certainly won't find it anywhere in the contract without the help of a good attorney!

Over there, want to buy an island with all the bags of money you'll make when you day trade your account?

Just sign on with a discount broker, pull the handle on the slot machine and out comes money, all because you're so much smarter than the rest of the market!

You buy low, watch your stocks go up, sell higher, lock in the profits, lather, rinse and repeat until you're buying your first yacht!

LOST IN THE INVESTING CIRCUS — BY: BOB VERES (CONT'D)

Don't believe it? Just look at their advertisements. They're everywhere!

If you're impatient and don't want to wait a whole week before you buy your yacht, just open a margin account and make your bets with borrowed money. Remember, the trend is your friend!

A better friend is that investment guru on TV, who knows what the market is going to do.

Don't believe him? He'll tell you what a great track record he has. He called the last downturn, and the one before that. He calls downturns all the time. You can't lose if you follow his advice, which is free if you watch the financial channels, but you probably want the expensive inside scoop, which might get you that yacht in hours instead of whole days.

Who are those people sitting behind desks in the corner? Don't mind them. If you must know, they're called fiduciary planners, who charge fees instead of commissions for their advice. Borrring!

They only make up a small percentage of all the people who give financial advice, and we don't let them participate in the fun house because they don't have millions of dollars to throw around at the TV airwaves, print media and social media. They don't buy Super Bowl advertisements.

And don't get us started about how boring they are when somebody makes the mistake of putting them on TV. (Mimicking voice) "We don't know what the markets will do in the future. We don't tout investment products until we understand the financial goals and objectives of our clients." I'm yawning already!

The average person's chances of finding drab birds like these, given all the exciting plumage on the other attractions in our fun house, is just about zero.

So why bother with them? Who wants to pay fees out of your own pocket when you can get investment advice for free, and have the product folks pick up the tab on your behalf?

Do I have to pull you away from those losers?

Come on over here, the tour continues in the exciting roller coaster fun house of hedge funds. Come on! You won't believe the kind of money these guys earn. For themselves, of course!

A 15-YEAR QUEST TO FIND THE PERFECT PLACE TO RETIRE

If you're in your late 30's or 40's, you might find it nonsensical to think about where you might live in retirement. After reading about Beth and Chuck, you may want to rethink your position.

At first glance, one might find a 15-year journey to find the perfect place to retire a bit excessive. But is it?

Writing in the Wall Street Journal[2], Beth DeCarbo tells the tale of how she and her husband spent that amount of time to find their perfect place, not to mention visits to 21 cities. Interestingly, the journey didn't start as they approached retirement; it began when Beth and her husband, Chuck, were in their 30's.

As they watched their friends buy vacation homes and spend their money on 'stuff,' Beth and Chuck began a discussion that's relevant to all of us: Where did they want to be in 20 years? What did they want their lives to look like?

One of the key components when they started their quest was the preparation of a financial plan. But that was the easy part.

"We created a spreadsheet that itemized our must-haves. These attributes, we agreed, would be non-negotiable. Drafting this document was illuminating (and crucial) because it raised the other major difference in our personalities: Chuck likes being around people and a sense of community. I want a remote location and plenty of solitude."

The must-have list included such items as "superfast internet service" (so they could both continue to work remotely), "to be near a major medical center and transportation hub, have all four seasons, access to outdoor activities and be near a college town." In addition, "Chuck wanted to be close to a golf course and in a gated community so that he felt the house was safe when we travel. I wanted it to feel secluded, with at least an acre of land and killer views." As the author stated: "We knew it wasn't going to be easy."

In the end, after years of work, they settled on a community in South Carolina. They both knew it when they saw it and realized that it checked all of their boxes. They were home.

BY THE NUMBERS[4]

- **Student loan debt** reached **$1.46 trillion** as of 12/31/18, up +8.6% per year over the last decade. An estimated 2 million millennials are living in rental housing today or they are back living with their parents instead of owning a home due to high student loan debt. Millennials were born between 1981-97 and are ages 22-38 in 2019.
- 58% of Americans have **not executed a will** and other estate planning documents, e.g., a **medical directive** that specifies what actions (if any) should be taken to prolong an individual's life.
- For tax year 2016 (the latest year that tax data has been released), it took $480,804 of **adjusted gross income (AGI)** to rank in the top 1% of taxpayers, $197,651 of AGI to rank in the top 5%, $139,713 of AGI to rank in the top 10%, and $80,921 of AGI to rank in the top 25%.
- The **top 3% of taxpayers** in tax year 2016 made $256,673 of adjusted gross income (AGI), received 29% of all AGI nationwide, and paid 51% of the federal income taxes paid by all US taxpayers.
- 45% of American adults surveyed are "" that a **major health event** (e.g., surgery, sickness or disability) could force them into a personal bankruptcy filing.

A 15-YEAR QUEST TO FIND THE PERFECT PLACE TO RETIRE (CONT'D)

Before signing all the papers to buy their dream lot, they (wisely!) called their financial planner to go over all the numbers. When they heard that their financial plan worked, they were ready to make an offer.

While a 15-year quest and visits to 21 cities might sound excessive, it actually makes a lot of sense. Clearly, it's a significant commitment, but if it pays off handsomely in the end, it's hard to dispute.

BY THE NUMBERS[4]

- The **average cost of 1-year of college** at an average 4-year public institution (including tuition, fees, room and board) has tripled over the last 22 years, rising from $7,142 for academic year 1996-97 to $21,370 during academic year 2018-19.
- 876,000 **single-family homes** began construction in 2018, the 7th year of increasing home starts since this measurement bottomed at 431,000 in 2011. The all-time US record for home starts in a single year: 1.72 million in 2005.
- The United States has **been in a recession** during just **83 months over the last 50 years**, equal to 14% of the months during the last half century.
- At the end of 2018, **China** owned **$1.12 trillion of US Treasury debt**, 7% of the $15.61 trillion of Treasury debt that was outstanding as of 12/31/18.
- For the week ending Friday 4/12/19, the US **exported 2.4 million of barrels of crude oil per day**. 5 years earlier (4/11/14), the US was exporting 67,000 barrels of crude oil per day or just 3% of its current export level. The surge in US oil exports started in late 2015 following the lifting by Congress of a 40-year ban on most overseas oil sales.

YOUR ONE-STOP-SHOPPING TIP GUIDE

Consumer Reports[3] asked etiquette experts—Diane Gottsman and Julia Esteve Boyd—to recommend which service providers to tip, and the amount. These suggested tips represent their combined recommendation.

BY THE NUMBERS[4]

- 45% of the 76 million "**Baby Boomers**" in the USA have no retirement savings. "Baby Boomers" were born between 1946 and 1964, i.e., the oldest "boomers" turned 65 years old in 2011. "Boomers" reaching age 65 in 2019 represent the 9th year of 19 years of "Baby Boomers".
- Americans pay "**out-of-pocket**" on average just 15% of the **total health care expenditures** they generate in a year. "Out-of-pocket" expenses include deductibles and co-payments for services and prescription drugs but does not include the cost of health insurance premiums. The remaining 85% of annual health care expenditures is covered by insurance.
- 44% of employers surveyed report they are "**having difficulty**" hiring new employees with **skills** equal to that of the firm's **retiring employees**.
- Americans **pay an estimated 84%** of the federal income taxes that would be collected **if all taxpayers were 100% honest**. The nation's "net compliance rate" is equal to "tax paid voluntarily and timely" plus "enforced and other late payments" divided by "total true tax".
- 24% of the **535 members of Congress** today are **women**, including 25 (out of 100) senators and 102 (out of 435) House members.

YOUR ONE-STOP-SHOPPING TIP GUIDE (CONT'D)

BY THE NUMBERS[4]

- Social Security trustees announced on 4/22/19 that the trust fund backing the payment of **Social Security benefits** (OASI retirement benefits) would be **zero in 2034**. A zero "trust fund" does not mean the payment of Social Security benefits would also go to zero, but rather would drop to 77% of their originally promised levels through the year 2095. When the trustees released their report in 2009 (i.e., 10 years ago), the Social Security Trust Fund was projected to be depleted in 2039.
- Inflation, as measured by the "**consumer price index**" (CPI) was **up +2.2% annually** for the last 25 years, i.e., 1994-2018. Inflation was **up +4.3% annually** over the 50 years before that, i.e., 1944-1993. The CPI is a measure of inflation compiled by the US Bureau of Labor Studies.
- Employers in 12 different industries worldwide anticipate that the split between "**work performed by humans**" vs. "**work performed by machines**" will shift from 71/29 in 2018 to 58/42 within just 3 years. The 12 industries include automotive, aviation, energy, financial services, infrastructure, oil & gas, and professional services.

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] Veres, Bob. "Lost in the Investing Circus." *Financial Planning*, Feb. 2019, pp. 11–12.

[2] Decarbo, Beth. "Our 15-Year Quest to Find the Perfect Place to Retire." *The Wall Street Journal*, 21 Nov. 2018.

[3] "Your One-Stop-Shopping Tip Guide." *Consumer Reports*, Feb. 2019, pp. 37–37.

[4] "By The Numbers." Direxion ETFs & Funds, 1 April 2019 through 6 May 2019.