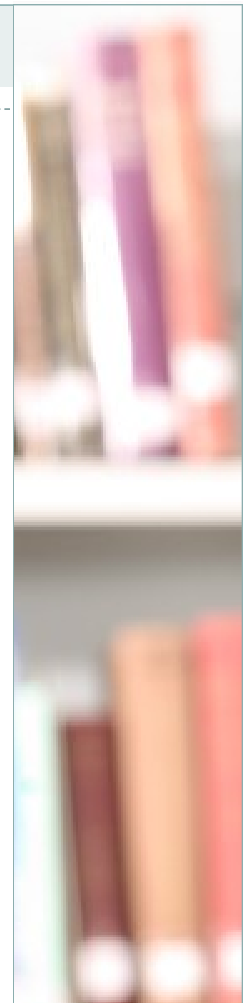
S.F. EHRLICH ASSOCIATES, INC.

November 15, 2018

Managing YOUR Money



STAN'S WORLD

I recently read an article in an industry journal[1] titled: "You Can't Win if You're Afraid to Lose." The tagline was: "To experience higher potential gains, clients need to be willing to tolerate occasional losses."

Left unsaid, of course, is how much an investor can tolerate a loss, even when occasional or temporary. We always assume losses in the stock market are temporary unless you sell, of course, which makes them permanent. Thus, it's understandable when investors (also known as clients) get unnerved when the market drops; in fact, some may even be tempted to retreat until things get better.

As uncomfortable as it may feel, investors shouldn't retreat. While it only feels like we've said this a thousand times, there are few safe harbors during the bad times. Nor is there a bell that will ring to signal it's time to come out of hiding and reinvest.

The secret behind sticking to a long-term commitment is understanding the ramifications of what's at stake. If you feel angst when markets fall, imagine how you might feel if you learned you were running out of money because you didn't take enough risk to keep up with inflation.

There's an old expression in this business: You can either eat well, or you can sleep well, but you can't do both. Eating well means taking on enough risk so that you can keep up with, or even exceed, inflation over time. Doing so allows for a continuation of your current lifestyle in later years. (Hence, the ability to eat well.)

Sleeping well means reducing risk so you have little worry about how the stock market performs. In fact, a portfolio comprised solely of CDs should allow you to sleep quite well. Unfortunately, that same portfolio will probably not allow you to eat well in future years due to lagging performance.

Experiencing market fluctuation is part of eating well, as unpleasant as it may feel at times. In fact, I can easily argue that it's preferable to suffer the angst from market fluctuation than to endure the abject fear from learning you no longer have sufficient assets to get you through retirement.

STAN'S WORLD (CONT'D)

We know the stakes feel bigger when you're in retirement because you can't go out and replenish your IRA account. Our job is to maintain the right balance in your portfolio, and we work on that every day.

PREPARING FOR THE UNTHINKABLE—PART 2

By: John Zeltmann

Since my Dad's passing earlier this year, my Mom and I have spent countless hours wrapping up his finances. I thought I'd share my impressions from the past several months, highlighting lessons we learned from bumps in the road they managed to avoid (as well as some they didn't).

Items to consider in advance of death

- **Beneficiary Designations** – Recheck them, for every qualified account you have. Beneficiary designations on s, IRAs, and life insurance policies direct where the assets in those accounts go at your death. They generally act independently of your will (unless you list a trust created under your will as beneficiary), so don't assume that because you recently updated your will that these types of assets will flow as you intend. When working with your attorney, have her suggest, in writing (to avoid any misunderstandings), how best to set up your beneficiary designations. Generally, you want to make sure whatever you're attempting to achieve through your will is reflected in your beneficiary designations.
- **Consolidation Is Key** - Do you have two IRAs that could otherwise be consolidated? What about an old 401(k) from a past employer? In addition to keeping track of multiple beneficiary designations, multiple accounts (especially if they're with different providers, such as Fidelity, Schwab, and Merrill Lynch) means a lot of additional work for your beneficiaries: three separate sets of paperwork, three separate phone calls to learn the procedure that each provider uses to process the rollover into the surviving spouse's name, and three different valuations that must be confirmed as of date of death for purposes of preparing the estate valuation.

BY THE NUMBERS[4]

- The size of the **US bond market is $42 trillion**. The size of the US stock market is $32 trillion. The size of the US economy is $20 trillion. The size of the Chinese economy is $12 trillion.
- 59% of "working age" Americans (defined as adults between the ages of 21-64) have **not accumulated assets in any retirement account** – defined benefit pension plan, defined contribution plan (e.g., 401(k) plan) or an IRA.
- Projections published by the Federal Reserve following its 6/13/18 meeting suggested they would initiate **2 more rate hikes in 2018 and 3 more rate hikes in 2019**. The first of the 2 rate hikes during the remainder of 2018 was announced last Wednesday 9/26/18. There are 2 scheduled Fed meetings remaining in 2018 – November 7-8 and finally on December 18-19.
- The **median rent** today for a 1-bedroom apartment in San Francisco is $3,400. The median rent today for a 1-bedroom apartment in Omaha, NE is $825. The median rent today for a 1-bedroom apartment in Charlotte, NC is $1,275.

PREPARING FOR THE UNTHINKABLE—PART 2 (CONT'D)

- **Are there any tax planning opportunities?** If someone is gravely ill, it might make sense to consider a variety of tax planning strategies that could help ease the surviving spouse's future income tax burden. If a husband and wife, for example, own any securities that are highly appreciated above what they paid for them, it might make sense to transfer those assets into the name of the ill spouse to obtain a step-up in cost basis. (The cost basis for any assets held in the name of a deceased individual gets stepped up to the market value as of the date of death, thereby eliminating any embedded taxable gains.) This strategy should be implemented in conjunction with your accountant and estate planning attorney to ensure their estate planning work isn't compromised.
- **Make your wishes clear ahead of time** - Shortly after receiving his diagnosis, my Dad called a family meeting. My Dad wanted to tell us, in his words, how his will was set up and what he wished to happen at his passing. For some people, sharing financial information with their kids is well outside their comfort zone. In other instances, due to spending issues, divorce, or general immaturity, the kids shouldn't know. In my Dad's case, he was private with their finances until he received his diagnosis, at which point he knew it was time to bring us in on their plan.
- **Find someone you trust and involve them in your plan** - Whether it's a trusted family member, an attorney, or your financial advisor (hint: us), make sure that someone other then you and your spouse are familiar with your plan. My knowledge of my parents' financial picture prior to my Dad's passing has been very valuable to my Mom. Settling someone's estate is an entirely new landscape filled with complexity. Mom just lost her spouse of 44 years, so that complexity is compounded by the fact that most of her capabilities are directed towards mourning the loss of her husband. The more you can get a trusted contact involved with your total financial picture, the better they can assist during times of crisis.

Items to consider after death

- **Security Concerns** - Identity thieves scour the obituary columns looking for their next targets under the unfortunately accurate assumption that family members aren't paying attention to the deceased individual's old accounts. In coordination with the settling of the deceased's estate, be sure to close any accounts that won't be used going forward, to include credit cards, and investment and bank accounts. Also, consider sending a "deceased - do not issue credit" letter to each of the three credit reporting agencies (Experian, TransUnion, and Equifax) to ensure no additional credit cards or loans can be issued in the name of the deceased or his/her Social Security number.

PREPARING FOR THE UNTHINKABLE—PART 2 (CONT'D)

- **Frozen Accounts** - Once news of the account holder's death is received by a bank or custodian, the account is typically frozen until the assets are rolled to the intended recipient. This can be problematic if the surviving spouse is relying on certain accounts for cash flow or if the frozen account holds a concentrated stock position that needs to be trimmed. To address the cash flow issue, consider obtaining a home equity line of credit that can be tapped to supplement cash flow while the estate is settled.

When I was younger, my Dad drilled into my head that there's nothing more valuable than an education, be it through life experiences or in the classroom: "Once you have it, nobody can ever take it away from you." I hope some of these lessons and observations help you and your loved ones when it comes time to deal with the loss of a family member.

SHOULD YOU BUY LONG-TERM CARE INSURANCE?

Talk about a tough question. The short answer is "There isn't one answer for everyone." The long answer is: "It depends."

What is it? Long-term care essentially involves insurance for two risks: assistance within your home, and/or care within a health-care facility (i.e., assisted living or long-term nursing care).

Can I get it? If you have a significant and chronic health condition that might increase your odds of requiring assistance or nursing care at some point in the future, you're unlikely to qualify for a long-term care policy. (The underwriters who work for insurance companies seek to limit risks, not increase them.)

BY THE NUMBERS[4]

- 47 **investment bankers** worldwide received **jail time** as a result of the 2008 global recession, including 25 bankers from Iceland. Just 1 American investment banker went to prison, receiving a 30-month sentence for "fraudulently inflating" the prices of mortgage-backed securities.
- A greater percentage of **Millennials** have all of their pre-tax retirement money invested in cash and bonds (20%) than those that have all of their pre-tax retirement money invested in stocks (19%). 2,593 Millennials (ages 20-36 in 2017) were surveyed in the 4th quarter 2017.
- 618 US employers surveyed in the 1st quarter 2018 anticipate offering a **starting base salary** of $65,000 to college graduates with a bachelor's degree, $85,000 to workers coming "direct-from-industry" and $105,000 to MBA graduates.
- 53% of 2,638 widows surveyed in the 3rd quarter 2018 admit that they and their deceased husbands had **no financial plan in place** in the event that either spouse died.
- **Life expectancy** at birth varies by as much as 20 years depending upon the county where you are born in the United States.

SHOULD I BUY LONG-TERM CARE INSURANCE (CONT'D)

What does it cost? Be prepared to pay, and then be prepared to pay more. Many insurance providers exited the long-term care business when they realized they couldn't make money. (In other words, policyholders didn't die when they were supposed to die. Instead, they lived and collected their benefits.) The remaining companies routinely hike premiums to assure they'll have sufficient assets to pay future claims. (NOTE: Unlike car insurance, the insurer who sells you a long-term care policy can't raise your individual premium if you have a claim. Instead, the company has to raise every policyholder's premium in a specific rate class, and they need permission from your state insurance commissioner to do so.)

Do I really need it?

<u>Limited Net Worth</u>: How much you have factors a lot into whether or not you need long-term care coverage. If your assets are limited and most of your income comes from (or will come from) Social Security, then the answer for you is probably "NO." The reason is that Medicaid will likely cover all of your needs after you run out of assets.

<u>High Net Worth</u>: If you have sufficient assets to pay your current expenses and an additional $100,000[2] or so a year, then you may have the financial wherewithal to self-insure. (Remember, for couples, the expense of nursing care or assisted living is in addition to current daily expenditures. If one partner moves into a nursing home, the other partner remains at home. Though there might be some downsizing, there will still be a need to pay for two separate living expenses.)

<u>Everyone in between</u>: The dilemma for everyone else is how to pay the increasing costs for long-term care policies, assuming, of course, that you're eligible to buy one. The answer is to review all of the many coverage options. Even partial coverage may be an adequate supplement to ensure that one partner receives care in a preferred facility should it ever be required.

BY THE NUMBERS[4]

- A 65-year old American male in 2018 is **expected to live** another 19.2 years (to 84.2 years old), an increase of 5 years in the last 40 years. A 65-year old American female in 2018 is expected to live another 21.6 years (to 86.6 years old), an increase of 3 years in the last 40 years.
- In 2011, 1 of 3 American homeowners (34%), **owned their homes free and clear of any debt**, i.e., no mortgage loan or line of credit. In 2017, 2 of 5 American homeowners (40%) owned their homes free and clear of any debt.
- The federal **estate tax exemption** is $11.18 million per individual for 2018 deaths, i.e., a married couple would be able to shelter $22.36 million from federal estate and gift taxes. The amount is more than double the exemption from 2017 due to changes from the "Tax Cuts and Jobs Act" legislation.
- In spite of tumbling 20.5% on the single trading day of 10/19/87 (31 years ago this week), the **S&P 500** gained +5.3% (total return) for the entire **1987** calendar year.
- The top 1% of Americans ranked by their dollar usage of health care represent 22.8% of total **health care** expenditures.

SHOULD I BUY LONG-TERM CARE INSURANCE (CONT'D)

The prospect of paying more than $100,000 a year for nursing home care can be both frightening as well as overwhelming. Fortunately, most people will never require nursing home care. For many, family, friends, and home health aides will help them get through trying times.

A SOLO SENIOR'S GUIDE TO HAPPINESS

MONEY Magazine recently had an article[3] on the "growing number of people (who) are facing retirement by themselves." Below please find a few tips on how to "live life to the fullest when it's a party of one."

- **Establish a Buddy System** - "If you don't have people to call on, it might be time to rethink your living situation…Looking for opportunities to connect in your community is key. Whether it's a weekly worship service, a bridge game at a senior center, or volunteering at a soup kitchen, find an activity you like and show up regularly so people will notice when you're not there…Also, help community members before you require help yourself."
- **Seek Safeguards** - Be certain you have updated healthcare and legal documents, such as a health care power of attorney and a living will. And if you're a solo senior, "…carry a laminated card in (your) wallet listing the name and phone number of (your) primary care physician, along with all (your) current medications and dosages."
- **Fine-Tune Your Finances** - As with updated healthcare documents, be certain "…to give someone financial power of attorney to handle your money matters if you're no longer able to do so yourself." You can also pay for a monitoring service (e.g., EverSafe) to "monitor your bank and credit card accounts for irregular activity and alert a trusted person if fraud is suspected." And if you're a solo, consider purchasing long-term care insurance, so you can afford in-home assistance and/or a health-care facility should one be required.

"Perhaps most important, successful solo aging may require a mind shift for some people," says Ann Glass, a gerontology professor at the University of North Carolina, Wilmington. "In our society, we tend to put so much value on being independent….I would argue that you're better off being inter-dependent, especially as you get older."

NOTE: If you would like a copy of this article, which includes a list of resources, please send us an email.

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

[1] Israelsen, Craig L. "You Can't Win if You're Afraid to Lose." *Financial Planning*, Oct. 2018, pp. 50-52.

[2] Gleckman, Howard. "The Maybe Policy." *Forbes*, 16 July, 2012.

[3] O'Brien, Elizabeth. "A Solo Senior's Guide to Happiness." *Money*, Nov. 2018.

[4] "By The Numbers." Direxion ETFs & Funds, 1 October 2018 through 12 November 2018.