



S.F. EHRLICH  
ASSOCIATES, INC.



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# Managing YOUR Money

## STAN'S WORLD

I typically use Stan's World as a space where I share with clients various experiences in my life that might relate to them. Perhaps it's about a study I read that may be relevant to a few or a lesson learned that might apply to others. In this instance, Stan's World will be about taking things for granted and not stopping to enjoy all that we have. You see, I visited a place which caused me to appreciate the timing of my life; maybe it will cause you to appreciate yours as well.

Last month, Pearl and I walked the killing fields of Dachau, the Nazi Concentration Camp located outside of Munich, Germany. (Frankly, what term other than killing fields can be applied to the grounds where so many died?) While technically not a death camp – Dachau was built as the model for Nazi work camps – Dachau certainly did its part in helping the Nazis carry out their so-called Final Solution.

To stand in the 'showers' where the elderly, women and children were murdered, and then walk past the ovens where their bodies were summarily disposed of, was sobering. I'm aware of an unknown number of distant relatives who died during the Holocaust, to include brothers and sisters of my grandparents, and their families. Conceivably, they chose to stay in their homes, not knowing what was happening in surrounding towns and villages. Or, maybe they weren't able to leave. Maybe some were even taken to Dachau, to die under the same fake shower head under which I stood?

As a child, I recall a relative who had a number stamped on her arm. I was too young to understand what it meant, and by the time I realized, she was long gone. At the time, I didn't know that tattooing numbers onto prisoners was the dehumanizing way the Nazis kept track of inmates, a practice started at the notorious Auschwitz Concentration Camp. Think of what farmers do to cattle, but substitute people for animals.

While I often talk about perspective – understanding your circumstances while viewing the world around you – Dachau also teaches us the perils, and virtues, of timing. What if my grandfather, who was born in Germany, had never left? What if I was born 10 years earlier, to a family living in occupied Europe? What if the planes that crashed into the World Trade Center had done so years earlier when I was sitting at my desk on the 57th floor?



## STAN'S WORLD (CONT'D)

While traveling on a train from Munich to Salzburg, an inspector boarded wearing a trench coat and ID badge. He walked up to each passenger and asked to see their passport and tickets. He was polite, and when he handed back our tickets and passports, he wished us a good day, in English, with an accompanying smile. He was an official from some government agency, making sure that the passengers traveling between countries had the correct documentation.

I couldn't help but turn to Pearl and wonder the outcome if the train had been traveling in 1940 and the 'inspector' observed that certain passengers were Jewish. After our visit to Dachau, that was a 'What-if' far too easy to imagine, made all the more realistic when the person asking for your documentation does so with a German accent.

While not drawing a parallel between a visit to Dachau and the business of financial planning, it is interesting to note that John and I spend many hours trying to rebut What-ifs in our business. What if the stock market goes down? What if I can't save enough money? What if I can't sell my house? What if I lose my job, or need care, or have to help my kids, or.....?

Perhaps the lesson from my visit to Dachau is to encourage others to celebrate the lives we have, warts and all, and to not dwell on *What-ifs* that are unlikely ever to occur. Perhaps the lesson from my visit to Dachau is to encourage others to spend more time focusing on *What-is*.

## THOSE SCAMMERS ARE GETTING EVEN MORE CUNNING

One of my daughters recently took a call on her cell phone because the caller ID showed the name of one of her sisters. But when she answered, she was surprised to find that it was a solicitation. Surprise! How'd they do that?

It turns out that everyone can spoof a phone number. As Doug Shadel writes in *AARP The Magazine*<sup>1</sup>, "Anyone at all can download an app that lets people lie about their phone number and alter their identity. It's why you can no longer trust caller ID." What?

## BY THE NUMBERS<sup>2</sup>

- The market cap of the S&P 500 is **80% of the total market capitalization** of all US stocks as of 9/30/19.
- 58% of 1,015 Americans surveyed in August 2019 believe that a **retiree** who has accumulated **\$1 million** in pre-tax investment accounts will be able to enjoy a "**comfortable**" lifestyle in retirement.
- The **pension plans** for state and local government employees nationwide are **just 52% funded**, i.e., the current fair market value of the assets backing public sector pension plans are equal to 52% of the present value of future liabilities as promised by the pension plans.
- The average annual cost for **health insurance** coverage for a family plan in 2019 is \$20,576, with the employer paying 71% of the total (\$14,561) and the employee paying 29% (\$6,015). Ten years ago (2009), the average cost was \$13,375 and the employer/employee split was 74/26.
- In **January 2009**, the Congressional Budget Office released a **10-year forecast** for our nation's national debt. The **debt projection** made in 2009 for the end of fiscal year 2019 (i.e., 9/30/19) was **\$15.973 trillion**. Our actual national debt as of 9/30/19 was \$22.719 trillion.



## THOSE SCAMMERS ARE GETTING EVEN MORE CUNNING (CONT'D)

Yes, you can download an app from Apple and Android app stores that will allow you to spoof. You'll have the ability to enter any phone number you want to appear on the target caller's ID. But wait; it gets worse.

While doing a presentation on fraud, Shadel was able to call a colleague on stage with him, "have the app reveal a police station number and make myself plausibly sound like a teenage girl as I claimed that I had been arrested and needed immediate bail money (the classic grandparent scam)." The app cost him \$8.

Imagine getting a call from a number that says IRS, or Social Security, or any other government agency. How likely would you be to share personal information with the caller, as you probably would have assured yourself that the call was 'official.'

The advice given by Shadel is the advice we all have to take going forward. "Merely assume that the number showing up on your caller ID is probably not accurate and may, in fact, be linked to a criminal. Yes, it might make you feel a little cynical, but one great way to boost your jolliness is to outsmart a scammer."

## CAPITAL GAINS DISTRIBUTIONS: WOLVES IN SHEEP'S CLOTHING?

By: John Zeltmann

At year-end, mutual fund companies often distribute gains to shareholders in the form of capital gains distributions. Even if the fund is down for the year, shareholders may have a tax liability in their taxable accounts. These distributions are sent to investors via check, automatically deposited as cash to their brokerage account, or reinvested into the issuing mutual fund. For those investors receiving the cash distributions, many see them as welcome arrivals - year-end bonuses, if you will. But as with many things in life, it's not that simple.

## BY THE NUMBERS<sup>2</sup>

- 8,567 American **retail stores have closed YTD** through 9/27/19, exceeding the all-time record of 8,139 store closures from 2017.
- It takes adjusted gross income (AGI) of \$2.37 million to rank in the **top one-tenth of 1% of US taxpayers**. It takes AGI of \$515,371 to rank in the top 1% of taxpayers. It takes AGI of \$208,053 to rank in the top 5% of taxpayers. It takes AGI of \$145,135 to rank in the top 10% of taxpayers. This data, covering tax year 2017, was released last week.
- By the year 2025, more than **50% of the US workforce** will be "**millennials**" or younger. Millennials were born between 1981-97 and will be ages 28-44 in 2025.
- 10% of American homeowners **spend at least 50% of their pre-tax income on their housing costs**. 25% of American renters spend at least 50% of their pre-tax income on their housing costs.
- **China's** economy, worth \$14 trillion today, is 80% owned by individuals in the private-sector, compared to being 50% private-sector owned in the late 1990s and 0% private-sector owned in 1978.
- 25% of American seniors receive **at least 90% of their pre-tax income** from their **Social Security** retirement benefit.



## CAPITAL GAINS DISTRIBUTIONS: WOLVES IN SHEEP'S CLOTHING? (CONT'D)

Capital gains distributions – regardless of how a fund performs – are taxable distributions. While the fund may be down for the year, a shareholder would still be taxed on the gains the fund distributes. If the fund manager purchased shares of Apple 20 years ago, for example, and sold the position in the most recent year, those gains are distributed among the shareholders.

Many investors mistakenly believe that capital gains distributions are in addition to the share price of the fund. In fact, when a capital gains distribution is paid to shareholders, the price of the fund falls by the amount of the distribution per share.

In a year when the market goes down, it is counter-intuitive to lose money in a fund and then pay taxes on capital gains distributions. Depending upon your individual situation, in a down year, it may make sense to sell a mutual fund that anticipates a large distribution and purchase an exchange-traded fund that focuses on a similar segment of the market. At some point after 30 days – due to tax considerations – the exchange-traded fund could be sold and the original mutual fund repurchased.

Assume, for example, Jane Smith owns \$150,000 of the DFA International Small Cap Value fund in a taxable account, and the estimated long-term capital gains distribution for that fund is 3.14%, expected to be paid on December 14th. If she holds that fund through December 14th, she would receive a long-term capital gains distribution of \$4,725 paid to cash in her account. Assuming a capital gains tax rate of 15%, that's equal to a tax bill of \$708.75. By selling the fund before December 14, Jane would avoid that tax bill in exchange for the cost of a few trades.

## BY THE NUMBERS<sup>2</sup>

- The **average 401(k) contribution rate** by American employees in the first quarter 2019 is **8.8% of salary**. This average is based upon those employees participating in an employer-sponsored pre-tax 401(k) retirement account.
- The 111.2 million **households** that existed in the United States on 9/30/09 were split 68/32 between 75.2 million **owners** and 36.0 million **renters**. The 122.7 million households in the United States on 9/30/19 were split 65/35 between 79.5 million owners and 43.2 million renters.
- If China's \$14.2 trillion economy grows at +4% per year into the future and if the USA's \$21.5 trillion economy grows at +2% per year into the future, **China's economy will become the largest in the world in the year 2041** or 22 years down the road.
- 37% of 2,003 Americans surveyed in the 1st quarter 2019 had **less than \$5,000** accumulated in pre-tax **retirement accounts**.
- Less than 1 of every 3 Americans who are **at least age 25** (31% of this group) **have completed college**, i.e., they have at least a bachelors' degree.



## CAPITAL GAINS DISTRIBUTIONS: WOLVES IN SHEEP'S CLOTHING? (CONT'D)

Taxes are not paid on distributions held in qualified accounts, such as an IRA, nor do losses offset capital gains. Thus, there's no benefit to engage in this strategy in those types of accounts. This strategy also would not make sense in situations where a position is so highly appreciated that any benefit from selling the fund to avoid the capital gain distribution would entirely be offset by the capital gains tax paid on the sale.

Over time, the goal of a portfolio is to grow. Growth can come in a few ways, be it through investment growth or tax savings. While we can't control which way the market moves, we might be able to control whether we strategically avoid capital gains distributions and their associated tax bills.

### BY THE NUMBERS<sup>2</sup>

- The **2020 presidential election** will take place on 11/03/20. **139 million Americans** voted in the November 2016 presidential election, equal to **60.2% of our nation's voting-eligible population**. The state with the **highest percentage of voters** who participated in the 2016 election was **Minnesota**, with 74% of its eligible voters going to the polls.



S.F. EHRLICH  
ASSOCIATES, INC.

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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.*

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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> Shadel, Doug. "Who's Calling?." *AARP*, October/November 2019, p. 30.

<sup>2</sup> "By The Numbers." *Direxion ETFs & Funds*, 7 October 2019 through 11 November 2019.

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