JFR

Financial Stuff

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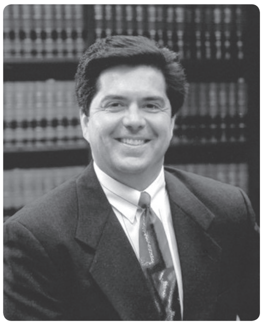


John F. Robbins, MBA, CFP®

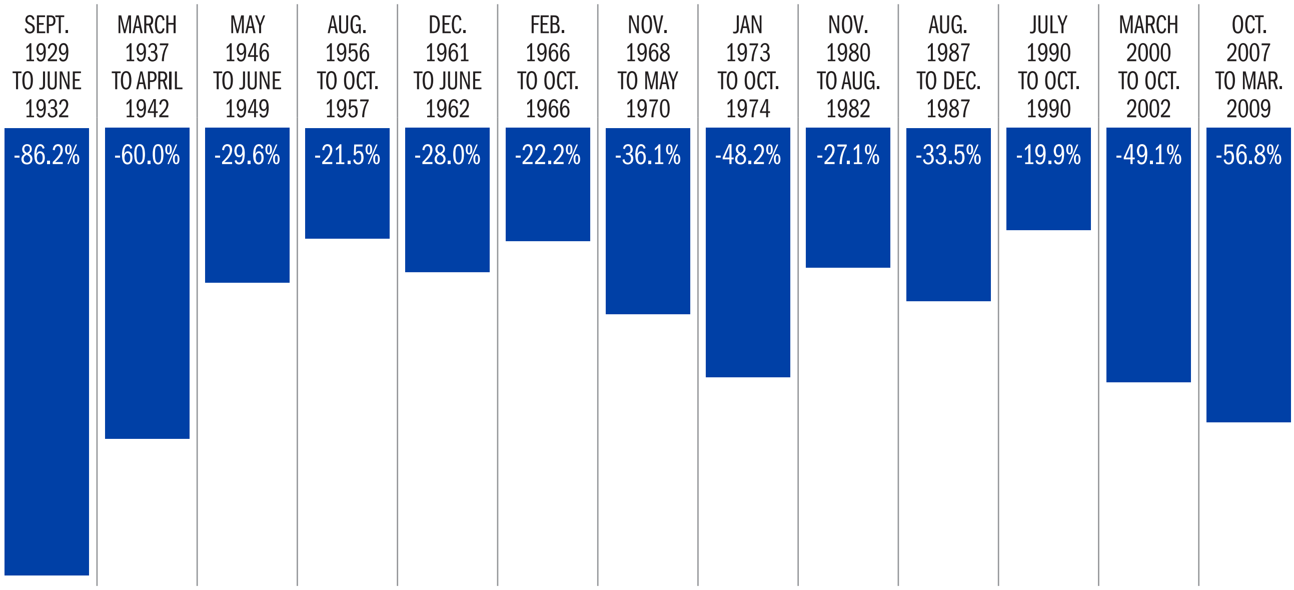
WHAT ABOUT THE CHILDREN?

When it comes to money, the typical American child is poorly prepared and/or completely unprepared to manage their finances as an adult. *This shouldn't be!* Teaching children how to manage money is not complicated. Making money is hard? *Not!* Anyone can make money by finding a need and filling it. The bigger the need, the more you get paid. Money is evil? *Not!* The Bible says it is the root of *"all sorts of evil,"* but money itself is an inanimate object. It can be used for good and evil. Use money as a resource and opportunity to achieve goals. Teach children to have a healthy relationship with money and to treat it as a medium of exchange. Go to college and only the best college? *Not!* There are many ways to learn how to make money. Mark Twain said he never let education get in the way of learning. Reading, learning from experts, listening, how-to programs, internships, etc. Working hard leads to success? Maybe! Maybe not! Physical labor doesn't pay as well as using your talents and abilities. Find what they are passionate about and help them figure out how to get paid for it. *Innovation and creativity go farther than hard work*. Choose your friends wisely? *Yes! Yes!* Like a winning sports team, who you associate with is very important. If your child wants to be successful, then he/she needs to hang out with winners. When you fall, get up and do it again? *Yes! Yes!* It may involve changing majors, sports, etc., but get up and keep walking/running. Kids need to be persistent. They need to learn from their mistakes and realize that failure is not final. Everyone is equal? *Not!* We are all humans with the same basic needs, but when it comes to success in life we have different gifts, talents, abilities, personalities, etc. We each need to focus on our unique strengths and develop them. It's popular thinking that everyone deserves the same opportunities and outcomes, but success in life involves overcoming adversity and making things happen on our own. Entitled? *Not!* Like our talents, no one owes us anything. There are people who want to help and see us succeed, but they are few and far between. Be thankful for any helping hand, but making our own way is the normal path. Learn how to get things done and do it! Money makes you happy! *No, but it opens up opportunities we might not otherwise have!* Having more money than less helps, but happiness comes from living a full and fun life. Remember the saying, *"The best things in life are free."* Teach your children how to be happy without money as well as how to earn and manage money. Middle Class is far enough? Maybe! Maybe not! In America, achieving middle class does not take much ambition. Teach your children to have high expectations and motivation to make their dreams come true. Motivate them to climb higher and jump farther.

> *He who walks with wise men will be wise, but the companion of fools will suffer harm.*
>
> SOLOMON

BEAR MARKETS SINCE 1929

The average bear market price decline for Standard and Poor's 500-stock index is 39.9%. But losses vary widely, as does the duration of the downturn.



Source: S&P Dow Jones Indices

HOW MUCH IS ENOUGH?

Too many Americans are saving for retirement without calculating how much they will need. There are all kinds of free calculators and software on the Internet today. Vanguard, Fidelity and T Rowe Price are popular options. People simply don't save enough. 10% of income is a good estimate, but many need to save 15-20% due to a late start or poor performing investment strategies. One common rule is allocate 100 minus your age to stocks. Another increasing priority is to make sure the fund expenses are low. One huge mistake is cashing in your retirement plan early for one reason or the other. It is your most expensive source of money. Don't do it! Another common mistake is spending your money too quickly in retirement. Withdrawal rates should be 5% or less until you are in your 80s and have a better idea how long you're going to live. Retiring too early can result in going broke as well. Each year you work makes a big difference in how long your funds will last. Getting bad or no advice is another common mistake. Most financial advisors (including JFR) offer free initial consultations. If you know someone thinking about retirement, or struggling with financial issues, encourage them to take advantage of the free consultation. As Solomon said, ***"a wise person has many counselors."***

"LIFECYCLE INVESTING"

As the financial planning industry matures, they continue to create terminology to help us all. Investing in risky securities provides the opportunity to earn more than the interest offered from money markets, CDs and savings accounts. The extra return is needed to offset inflation and maintain our lifestyle tomorrow. The problem is few like risk. We don't like to hear the market update on WJR reporting the Dow is ***"Down!"*** by 300 points. The trade-off is how much risk is necessary to achieve your financial goals over a ***"life cycle."*** This is what we do. The experts refer to it as the ***"efficient frontier,"*** which simply translated is how much to invest in stocks. A common term is ***"guaranteed,"*** i.e. ***"How can I guarantee never running out of money?"*** Annuities are the most common option to ***"guarantee"*** you never outlive your money, but they are not free. It takes a long time (15-20 years) just to get your own money back. The return on a guaranteed annuity over 30 years is often less than 3%. And what are the odds of a 60-70 year old man or woman living to 90? Or 100? Another new term for a comfortable retirement is ***"glide path."*** How can someone invest their money to ensure a smooth ride over time? The two simple answers are spend less and/or take more risk. Thankfully, there are principles to follow that have worked in the past. And we're here to help! *(Source: Morningstar, Wall Street Journal)*

> *When government — in pursuit of good intentions — tries to rearrange the economy, legislate morality, or help special interests, the costs come in inefficiency, lack of motivation, and loss of freedom. Government should be a referee, not an active player.*
>
> **MILTON FRIEDMAN**

"MONEY CAN'T BUY ME LOVE!"

Remember that Beatles hit song? What does our money buy? Recent surveys by Charles Schwab reveal how ***"wealth"*** and ***"rich"*** usually are not defined in dollars, but lifestyle. Having money helps, but happiness and contentment are better defined by things we can enjoy without money. Most Americans live paycheck to paycheck.

MY KIDS WON'T FIGHT OVER MONEY! ***OOPS!***

Maybe they will. We see it all here and kids fighting over their inheritance is becoming increasingly common. Like a fight over who gets to use the bathroom first, what seems like a simple disagreement between two nice people can escalate into a long and expensive battle. One where the attorneys are well paid, but everyone else loses. The best strategy is anticipation. What if… Family fights over a business or mom's house can take on an identity of their own. No one wanted it to be this way, but here we are. Now what? Many won't know what to do, so they hire an attorney. Lawsuits can become public knowledge and suddenly your family's laundry is on the Internet forever. Ask yourself some questions. What can I do today to reduce the odds of trouble tomorrow? Questions? Call us. Like divorce, estate planning has easy ways and hard ways. This is especially important with business succession planning. 70% of businesses do not survive into the second generation. And normally it is because it wasn't planned for properly.
(Source: WSJ, Wealth Management, Financial Advisor)

WHEN CAN I RETIRE?

How much can I spend? Picture a 63 year old couple making a combined income of $75,000. Their house is paid for, they have $10,000 in the credit union and $200,000 in their retirement plans. They want to retire at 65, when their combined Social Security will be $28,000. Their current take home pay is $5,000 per month. In order to have $4,000 per month to spend in retirement, they will need $1,800 per month from their retirement plans, which will exhaust their retirement funds at age 83 assuming a 5% return. The recommended withdrawal is $800 per month. No problem if you ***"Spend less than you earn,"*** but for many Americans spending $1,000 per month less is difficult. What to do? Come see us! There are other options and this is what we do every day. Change your investment strategy, work longer, consider a reverse mortgage and/or a qualified longevity annuity contract (QLAC).

WHAT IF I WORK LONGER?

It is consistent with ***"Spend less then you earn,"*** in that one more year of adding to your retirement funds is one less year of drawing on them. In a nutshell you are increasing your Social Security income and adding to your 401k. According to a study conducted by the American Association of Individual Investors (AAII), retiring at 63 instead of 62 increases your retirement income by 7%. Retiring at 66 instead of 62 increases your retirement income by 33%. Retiring at 70 instead of 62 increases your retirement income by 75%. That's a dramatic increase! The only problem is you may not be able to handle working the extra years physically and/or emotionally. Much happens in life between 55 and 62 that results in most Americans retiring whether they want to or not. What if I save more? Spend less? Increase the risk in my investments? Those are all legitimate ways to increase retirement income, **BUT!** The hands down best way to increase retirement income is to work longer. The only problem is working longer is the last choice for most of us!
(Source: AAII, AARP, Investors Business Daily)

STOCKS 101

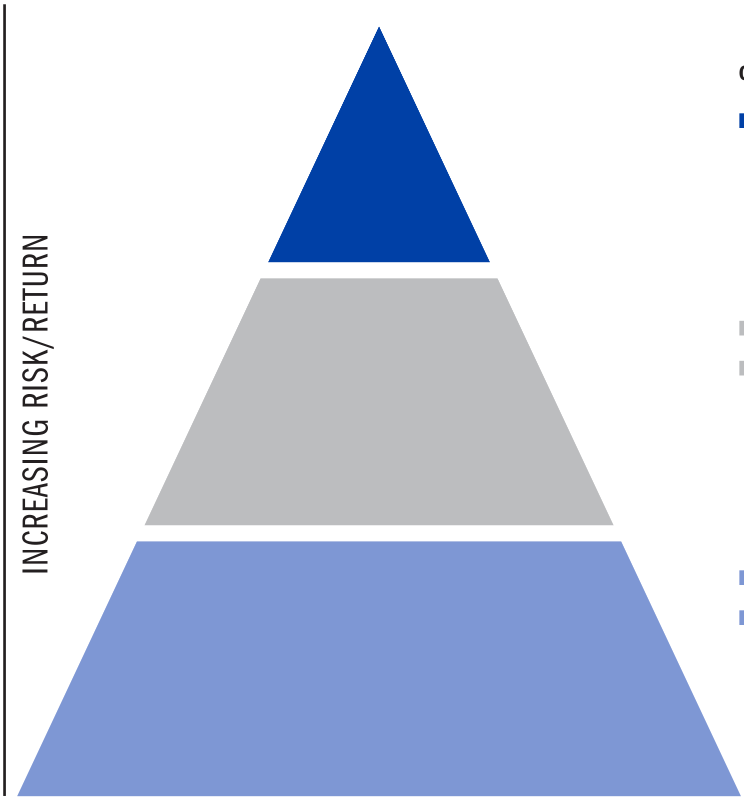
Wall Street says, ***"There are many reasons to sell, but only one reason to buy. You think the price is going higher."*** The most common reason we hear from clients is ***"a market expert says a correction is coming."*** Or, even better, ***"I think a correction is coming."*** We have a crystal ball in our office, but it doesn't work. History teaches it is impossible to predict the market. Most of the market returns occur in small windows. Miss just a few good days and you may significantly underperform. Another common reason for getting out is ***"I'm losing money,"*** or ***"I'm making money."*** The market doesn't monitor what we paid for a stock. Transactions today are based on what the market thinks will happen in the future. How about ***"I'll sell when I break even?"*** This logic is usually based in the hope that you will never lose money. What often happens is you take a bigger loss and/or make nothing for an extended period. It's tough to sell at a loss, but it is often the best decision. ***"The company cut its dividend."*** In these situations we need to ask a few more questions. Like our own lives, sometimes there is a good reason and it may be better to buy than sell. ***"My stop loss tripped."*** They have their place in the big scheme of things, but it is normally better to make your own sell decision rather than the market. Professionals are constantly looking for opportunities to make a quick dollar. Tripping someone else's stop loss orders is one way. History teaches that we make more money buying and holding than trading. "***When should we sell?"*** The primary reason is the fundamentals have changed. There are all kinds of local companies that offer examples. Another reason is competition. Amazon is wiping out the stores we grew up with. Would you rather own JC Penney stock or Amazon today? Another example is Kodak. They made money forever selling film for cameras. Today no one uses film. Would you trade your IPhone for a 35mm Minolta? ***"I need money soon."*** This is a practical reason to sell regardless of what the market is doing. "***Apple is 30% of my net worth."*** This comes under the ***"Divide your Portions"*** principle. ***"I found a better opportunity."*** Nothing wrong with selling a winner when you are going to use the proceeds to buy a better winner. Another reason to sell a winner is to rebalance your portfolio. As mentioned in the past, 90%+ of investment returns and losses are based on the allocation strategy. *(Source: Motley Fool, AAII, Investors Business Daily)*

SPEND LESS THAN YOU EARN...

Like sports, it is important to remember life's fundamentals. Apply them and get rewarded. Ignore them and get penalized. The pyramid below helps to visualize the need for a firm foundation. While stocks provide the best return over time, withdrawing more than 3-5% often leads to trouble; i.e. outliving your money as revealed by the chart on withdrawal rates. This chart assumes a 4% withdrawal rate, 3% annual increase for inflation and a 50% chance of outliving your money.

RETIREMENT INCOME PLANNING NEEDS A FIRM FOUNDATION

Building your plan. It must be useful to match dependable income sources with fixed retirement expenses, while coordinating other investments with more discretionary expenses.



Considerations	Potential Solutions
What is the time horizon and appropriate planning vehicle for your heirs and your estate goals?	Equities? Alternatives*
What are your desires/wants How much risk are you willing to take?	Equities Extended sector bonds
What are your basic needs? What income sources do you have or will you need to create?	Social Security Pension Annuities High quality bonds Cash and alternatives

Source: J.P. Morgan Asset Management.

**Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.*

THE LATEST TAX FIGURES

According to the IRS, the top 1% of American taxpayers ($480,000+ of adjusted gross income AGI) paid 37% of the taxes in 2016, while earning 20% of the income. The highest 5% ($198,000 AGI) of taxpayers earned 35% of the income while paying 58% of the taxes. The top 10% ($140,000 of AGI), with incomes exceeding $140,000, earned 47% of the income and paid 69% of the taxes. The bottom 50% of Americans paid 3% of the Federal income taxes, many of whom get substantial relief via refundable credits. *(Source: IRS)*

TIME IS MONEY?

Legendary investor Benjamin Graham said, *"In the long-run the market is a weighing machine, BUT... in the short-run it is a voting machine."* Translation? In the long run, stocks go up or down based on their financial health, a.k.a. *"fundamentals;"* sales, profit, assets, liabilities, cash flow, etc. In the short run, the markets can be influenced by anything. Today the markets sold off due to unusual political news. On any given day, anyone can argue logically why we should buy or sell. The *"news"* refers to them as *"experts"* so we'll listen. Usually, today's *"news"* is not new. When hundreds of businesses need 24 hours of content every day, it is safe to conclude much of it has little to no value.

OCTOBER: *This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.*

MARK TWAIN

IMPORTANT AGES

Full Retirement Age (FRA) for Retired Workers

YEAR OF BIRTH	FRA	AGE 62 BENEFIT
1943-1954	66	75.0%
1955	66 and 2 months	74.2%
1956	66 and 4 months	73.3%
1957	66 and 6 months	72.5%
1958	66 and 8 months	71.7%
1959	66 and 10 months	70.8%
1960 and later	67	70.0%

Retirement Milestones

AGE	MILESTONE
50	Catch-up contributions for IRAs, 401(k), 430(b)
55	· Penalty-free distribution from 401(k) following separation of service · Separation of service must occur during or after the calendar year in which the participant reached age 55
59½	Penalty-free distributions from Traditional IRAs and Qualified Retirement Plans – 401(k), 403(b)
60	Surviving spouse eligible to collect partial Social Security benefits of deceased spouse
62	· Primary worker eligible to receive reduced Social Security benefits · Spouse eligible to receive reduced spousal benefits
65	· Enroll in Medicare · Penalty-free distributions from HSAs for non-medical withdrawals *(still subject to income taxes)**
66	· Full Retirement Age for individuals born 1943–1954 · For Social Security recipients born between 1955 and 1959, and two months to age 66 for every year after 1954 through 1959
67	Full Retirement Age for individuals born 1960 or later
70	Ending age for accruing delayed credits for Social Security
70½	Retirement Minimum Distributions from IRAs must begin

*Qualified medical expenses are exempt from income taxes.

Sources: Social Security Administration(www.ssa.gov), Internal Revenue Service and US Centers for Medicare and Medicaid Services (www.medicare.gov).

IT'S ALL ABOUT THE MONEY?

Don't forget your time! No question nearly everyone we've helped retire would say they wished they had retired sooner and had more time each day. As the amount of time left decreases, the desire for more increases.

WHAT ABOUT TOMORROW?

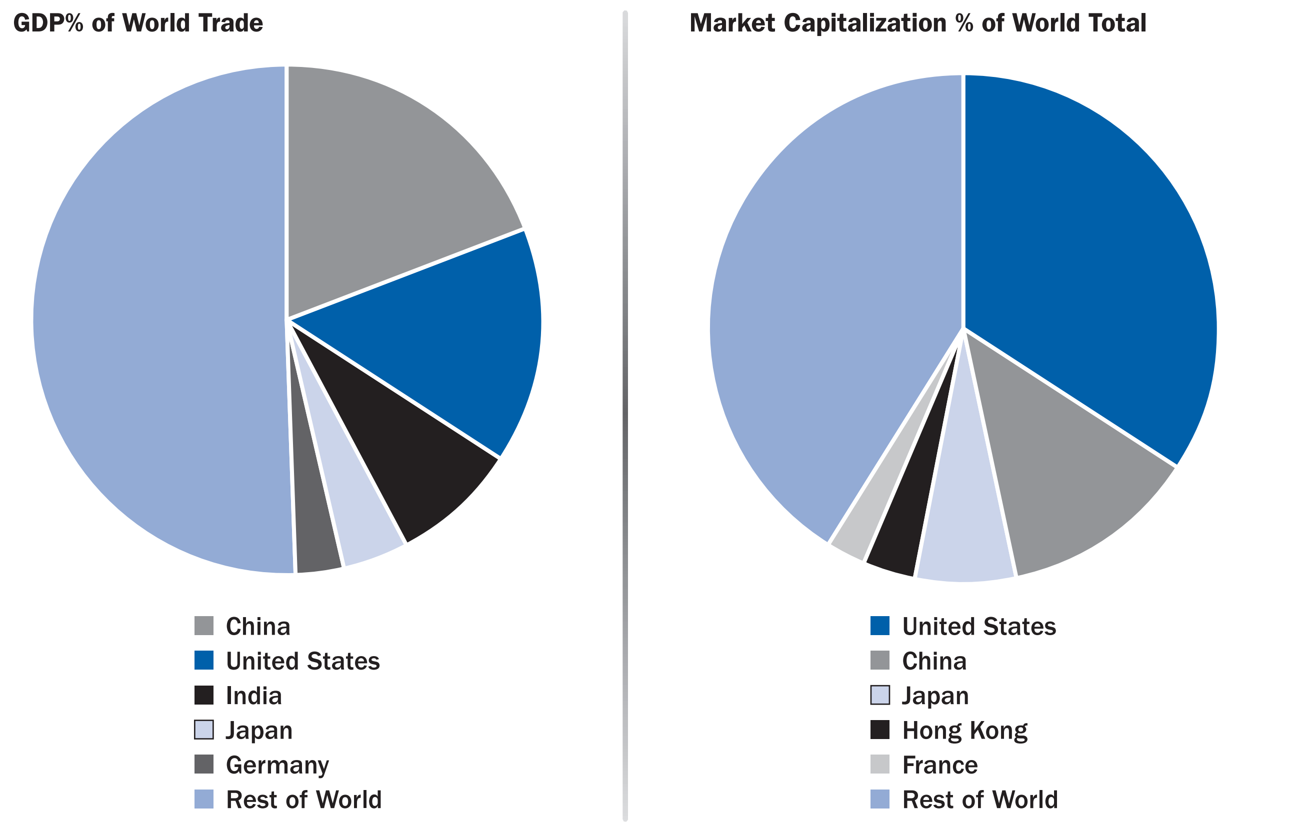
According to the MIT Age Lab, traditional retirement planning is focused on accumulating money and then spending it wisely. The biggest fear for clients is outliving their money, but the greater risks are losing our independence due to health problems, not being able to do the things we want to do and/or outliving all of our friends. Planning for these contingencies are critical to living longer and better. The most recent MIT study concluded that our quality of life in retirement can be predicted based on the answers to 3 simple questions. The first question is, ***"Who will change my light bulb?"*** Or what happens if I get sick or old? The second question is, ***"What if I want an ice cream cone?"*** Or what happens if I lose my mobility? The third question is, ***"Who am I going to have lunch with today?"*** Or what happens if I outlive my friends? *(Source: MIT Age Lab)*

SURVIVAL (LIFE HAPPENS)

The best plan is to adapt and keep walking when problems arise. Getting sick, losing a spouse, losing a job, etc. Thankfully, there are steps to take.

1) **Take Care of Yourself!** Eat right, get your sleep, exercise...
2) **Ask for Help.** The Bible talks about the strength of two and three strand ropes compared to a single strand. No one is an island. Friends, neighbors and family often want to help when we are struggling. *Let them help!*
3) **Communicate.** Simply having someone to talk to works wonders for most of us. Someone who will be patient and willing to listen.
4) **Grieve.** When we lose a loved one, we need time to grieve. Crying is okay. Sharing your feelings. Find a way to honor their passing.
5) **Stay Positive.** Keep telling yourself you will get through the struggle.
6) **Relax.** Regroup. Take a break. Simply going for a walk is a good start. Work in your garden. Take a bike ride. Anything you enjoy and helps you forget about your problems. *(Source: WSJ)*

US DOMINATES GLOBAL EQUITY ALLOCATIONS



Source: World Economic Outlook Data Base, January 2018; World Bank
Data provided is for informatuion use only. Past performance is no guarantee of future results. See end of report for important additional information. Gross domestic product based on purchasing-power-parity (PPP) share of world total (percent). Purchasing-power-parity adjusts for GDPs for differences in prices, so aggregate country values are more comparible.

WHAT IS A "FIDUCIARY RELATIONSHIP?"

The simple answer is it depends on who you ask, but the big picture is simple. The needs of the client comes first. 40 years ago, the dictionary definition for fiduciary included ***"trust," "confidence"*** and ***"reliable."*** The legal dictionary expands on the definition with terms such as ***"good faith," "honesty," "loyalty," "reasonable care," "avoiding conflicts of interest," "putting the needs of the client first…"*** What the government will ultimately decide is still a work in progress, but rest assured more time, money and paperwork for JFR to maintain your file. Also on the horizon is the updated CFP *"7 Step Process"* scheduled to take affect in October 2019.

1) *Defining the Scope of the Engagement/Relationship.*
2) *Gathering the Client Data/Information.*
3) *Analyzing and Evaluating the Data/Information.*
4) *Identifying and Evaluating Alternatives.*
5) *Developing and Presenting the Recommendations.*
6) *Implementing the Recommendations.*
7) *Monitoring the Recommendations.*

As always, we will try to simplify/streamline everything as much as possible. However, like the new tax laws, there is no getting around the additional time and money required to maintain client files. The end result: changes to our service model. We will discuss the changes with you directly. The good news is the cost for managing money continues to drop. The bad news is easy access to experienced professionals is being diminished. Like most government work, good intentions, but unintended consequences. *(Source: CFP Board, Financial Advisor, Financial Planning, Advisor Perspectives, Websters Dictionary, Legal Dictionary)*

WHAT IS WEALTH TO YOU?

Americans long for lives that don't revolve around money — which makes sense, since 65% of Americans live paycheck to paycheck.

■ **Percent of survey respondents**

Living stress-free/peace of mind	28%
Being able to afford anything I want	18
Loving relationships with family & friends	17
Enjoying life's experiences	14
Having lots of money	11
Having good health	7
Being charitable	2
Other	3

Source: Charles Schwab

WHAT MAKES A RICH DAILY LIFE?

■ **Percent of survey respondents**

Spending time with family	62%
Taking time for yourself	55
Owning a home	49
Meals out /meals delivered	41
Subscription service like Netflix, Spotify	33
Grooming, Pampering	29
Having the latest tech gadgets	27
Shopping at specialty grocery stores	22
Having a busy social life	21
Driving a luxury car	21
Gym membership / personal trainer	17
Using a home cleaning service	12
Other	4

Source: Charles Schwab

LOOKING TO SAVE/DEFER TAXES ON A LARGE SALE?

Deferred Sales Trust (DST) – Receiving future payments in lieu of an immediate lump sum delays the recognition of capital gains, enabling the taxpayer to enjoy the benefit of the pretax proceeds for an extended period. Managing the amount and frequency of principal distributions can also enable the seller to benefit from lower marginal tax rates for years in which the gains are recognized. DST can defer capital gains taxes on the sale of almost any type of highly appreciated asset: businesses, real estate, stocks, high end primary residences, collectibles... DST offers the ability to convert an illiquid asset, such as a business, into a diversified portfolio of liquid investments. This can help reduce risk and volatility as well as increase your retirement income. Most importantly, a significant portion or all of the income can be based on the pre-tax proceeds; deferring the capital gains tax for an extended period of time. DST offers the opportunity to maintain family wealth for generations by avoiding the tax drain at the time of sale. There are also significant estate planning benefits. Most importantly, avoiding the need to sell a significant asset at death. The payment options are very flexible and can be structured to best serve each specific taxpayer. The DST payments can be immediate or deferred. What's the catch? ***No catch!*** DST allows the seller to defer capital gains over time. Other commonly used tax deferral methods include 1031 exchanges, charitable trusts, and traditional seller carry-back installment sale contracts. Trust law predates the formation of the U.S. law and tax law. Trusts are used by millions of Americans to protect and preserve their wealth. DST can be used with any kind of legal entity, e.g., LLC's, S or C corporations, individuals... Another benefit is nothing is required to be given away to charity as is popular with charitable trusts. No like-kind exchange is needed via a 1031 real estate exchange. *(Source: Estate Planning Team, AlphaCentric Income)*

JFR Financial Services, Inc.

3133 Van Horn Road
P.O. Box 130
Trenton, Michigan 48183

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HOW JFR FINANCIAL SERVICES CAN HELP YOU. ***We are in business to serve you!*** More specifically, we are in business to help you work toward your lifelong financial goals. Services available through JFR Financial Services include:

Financial Planning and Consulting	Estate Planning	Retirement Planning
Retirement Plans: IRA, SEP, 401k, Keogh, 403b	Public Speaking and Educational Seminars	College Funding Programs
Insurance: Life, Health, Disability, Long-Term Care	Business Planning and Development	Mutual Funds*
Management Training Classes and Consulting	Full-Service Brokerage Accounts*	Asset Management
Fee-Only Investment Consulting and Asset Management	Stocks*, Bonds*, Brokered CD's*, Money Markets*	Real Estate Investment Trusts
Employee Sponsored Retirement Savings Plans	Annuities, Fixed and Variable*	Personal Coaching

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421.