JFR

# Financial Stuff

A publication of **JFR FINANCIAL SERVICES, INC.** | JULY **2018**

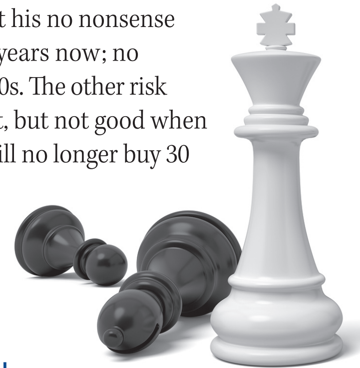
INSIDE


| | | | |
|---|---|---|---|
| I LOVE YOU SON/DAUGHTER, BUT... | FINANCIAL INSIGHT FOR RETIREES | FIDELITY UPDATE | THE GOVERNMENT IS COMING |
| GOLDMAN SACHS | INFLATION! OUCH! | WHEN WILL I GO BROKE? | JUST ANOTHER BILLION DOLLAR DAY |
| PAY LESS TAXES? EASIER TO FILE? | AVALANCHES HAPPEN | MEDICARE ADVANTAGE OR... | I WANT TO BE A MILLIONAIRE |
| POSTCARD TAX RETURNS | TAKING CARE OF MOM AND DAD | LIFE INSURANCE INSIGHTS | *AND MUCH, MUCH MORE!* |

John F. Robbins, MBA, CFP®

## WINNING BY NOT LOSING

Whether it's the local grocery store, church, city hall and/or the big money players on Wall Street, one of the most common mistakes humans make is assuming we've got everything figured out. More money is made investing by knowing what not to do rather than special insights. The best plans involve looking around the corner. I've mentioned before Warran Buffet's #1 rule for investing, *"Never lose money."* And rule #2 is, *"Don't forget rule #1."* He is not alone. The best investors talk more about what not to do than what to do. They credit their success today to what they learned making mistakes, surviving disasters, not going broke when everyone else does… The most popular Wall Street guru today, Taleb, says, *"The learning of life is about what to avoid."* When I learned how to hit a golf ball the right way, I had to unlearn bad habits. The bad habits still exist, but I now know how to avoid them. Living life the right way, by avoiding the wrong way, isn't popular. As children it is eating our vegetables, doing homework, cleaning our room… As adults, it's spend less than you earn, be or become debt free and *"divide your portions."* None of which is as fun as buying and selling bitcoin! Or buying a new car. Building a bigger home. Buying hot stock recommendations. *But wait!* Successful financial plans are about seeing around the next corner before you get there. There are cycles in life. The *"new paradigm"* today is old news tomorrow. At the moment, the popular trends are very risky. One is low volatility. We had virtually none in 2017, but it has come screaming back in 2018. Another is record stock and bond prices. One of the money managers I enjoy reading is John Hussman. His mutual funds have lousy performance, but his no nonsense market tracking is excellent. He's been yelling *"fire!"* for years now; no different than the very, very few in the late 1920s and 1990s. The other risk today is interest rates. Low rates are great if you're in debt, but not good when you are an investor. The day is coming when investors will no longer buy 30 year US Treasury bonds paying 3%, or a 10 year German bond paying -1%! And why we recommend *"dividing your portions."*
*(Source: Wall Street Journal, Barrons, W. Buffett, M Taleb, J. Hussman, Stansberry Research)*



## ESTATE PLANNING IS BACK?

It never left, but the latest tax law changes trigger the need to review your documents! A general rule of thumb is every 3 years and that still applies today. Anyone with documents more than 5 years old should review them with their attorney immediately. Especially trusts created prior to 2001. When the estate tax exemption was just $675,000, estate planning trumped income tax planning. For now, with the exemption as high as $11,200,000, it is the opposite. The new laws open the door to strategies that provide immediate income tax savings and asset protection while allowing access to your money. With many losing the ability to itemize deductions on their taxes, there are charitable options available to continue deducting your contributions. And don't forget to update your Powers of Attorney.

*(Source: WSJ, Kiplingers)*

## COLLEGE EDUCATION FOR GRANDCHILDREN

According to the latest surveys, 20% of grandparents are saving money for grand children's college. The 529 plan is the most popular vehicle, since it offers tax free accumulation and can remain in the name of the grandparents until it is used for college. The second most popular option is the prepaid tuition program. The only drawback is the benefits are not guaranteed if the grandchild goes out of state or to a private school. If you elect to help cover the cost when the grandchild is in college, then there are strategies to help avoid losing any financial aid the grandchild qualifies for. Most important, review the options with us. This is a situation where the *"how"* is more important than the *"what."*

> *A rigid economy of the public contributions and absolute interdiction of all useless expenses will go far towards keeping the government honest and unoppressive.*
>
> THOMAS JEFFERSON (1823)

## I LOVE YOU SON/DAUGHTER, BUT...

We see the situation way too often. Child needs money. Mom and Dad have some. The parents want their children to be happy and they've provided for them all their lives. So why not help them again? ***"We probably won't need it."*** The problem begins when the parents give children money that they may need for retirement, emergencies, unexpected medical expenses, etc. Life happens. Our financial futures are not guaranteed and we all need a cushion. What if the money given to children is hurting them rather than helping? We often see situations where gifting money is preventing a child from becoming responsible for their own future. What if money given away today increases the likelihood that you will need to live with your children tomorrow? 32% of children between 18-34 are living with their parents today. How many are at home because they are comfortable and/or under no pressure to grow up? What about 40-60 year olds who don't hesitate to ask for money from their parents? They may not realize the pressure they are putting on their parents. It's hard to say no to your children, so consider giving them money as a loan and/or setup a trust where once the account is exhausted that's it. It's important to think through all the possibilities, the most important being what if the parents become dependent on their children in the future? Once you have pondered the worst case scenarios, have a talk with your children and set the ground rules. Perhaps you'll need us to participate as the unemotional third party! Having boundaries and/or lines in the sand are critical.

## INTRODUCING GOLDMAN SACHS PRIVATE BANK SELECT

Need some quick cash? Goldman Sachs Private Bank Select,® a digital securities-based lending platform, allows you to borrow between $75,000 and $25,000,000 against your investment accounts at LPL. The platform streamlines the application process while providing full transparency into loan status, from origination through the entire life of the loan. Whether it's a real estate opportunity, new car, or unexpected emergency, Goldman Sachs Private Bank Select (GS Select) provides you with the ability to borrow, often at advantageous rates, so you can avoid liquidating assets and stay invested. *(Source: LPL)*

## PAY LESS TAXES? EASIER TO FILE?

**IT DEPENDS!** For most Americans, the savings will be between $500 and $1,000. Fewer filers will need to itemize, but most of us will still add everything up to make sure! The IRS estimates that the number of filers deducting mortgage interest on Schedule A will drop from 32 million in 2017 to 14 million in 2018. Many filers will revert to the old days of bunching deductions in one year. The most common being charitable deductions, which can be accomplished via a charitable gift fund. One change getting attention in the business world is the ***"pass through"*** provision for small business owners. As much as 20% of their profit may now be tax free if their profit is low enough to qualify. Wonder when the tax code will surpass 100,000 pages? We've got to be getting close! What to do? The IRS website has a 2018 tax estimator, or you can come and see us.
*(Source: IRS, Joint Committee of Taxation, Kiplingers)*

## FINANCIAL INSIGHT FOR RETIREES *(AND THOSE GETTING CLOSER!)*

We see what works and what doesn't. Spend less than you earn can also be referred to as, spend only for things you need. Popular research suggests you'll need 100% of your current income to be comfortable in retirement. This may be true for some, but not for most. Many can get by just fine on as little as 50% of their working income. The more typical range is 70-80%. Being flexible helps too! It's important to have margin in your routine. I'm reminded of a couple who decided not to retire since it would require eating out just 3 times a week instead of 5. If your current routine requires a 7% withdrawal from your IRA instead of 4%, then, depending on your age, look for ways to cut back. It can be done! Be/Become Debt Free also becomes more important in retirement. Risk tolerance decreases in retirement for a variety of reasons. One way to feel more secure is to be debt free. It has emotional value that does not appear on paper. Divide Your Portions, aka not putting all your eggs in one basket, is important in retirement as well. The most common mistakes are having too much in the bank or individual stocks. Savings accounts and CDs are paying less than 2% today. While finding conservative investments paying more can be a challenge, remember the parable of the bad steward who buried his talents in the backyard. His boss wasn't happy!

> *We who live in free market societies believe that growth, prosperity and ultimately human fulfillment are created from the bottom up, not the government down.*
>
> RONALD REAGAN

## INFLATION! OUCH!

From April 1998 to April 2018, inflation (CPI) in the USA increased 54% or 2% annually. This is lower than the 3% average going back 100 years. An individual living on a fixed income would have only 65% of the purchasing power today that he/she had in 1998. The Consumer Price Index (CPI) is a measure of inflation compiled by the US Bureau of Labor Studies. *(Source: Department of Labor).*

## AVALANCHES HAPPEN

We don't experience them in Michigan, but they are a part of life in some places around the world. When it comes to investing, I'm reminded of Black Monday in 1987. *The market dropped 22% in one day!* The good news is the market recovered fairly quickly, but like an avalanche, it was one scary drop! Drops happen. And then the market recovers. The only mystery is how long it takes. The best way to survive and prosper is not complicated.

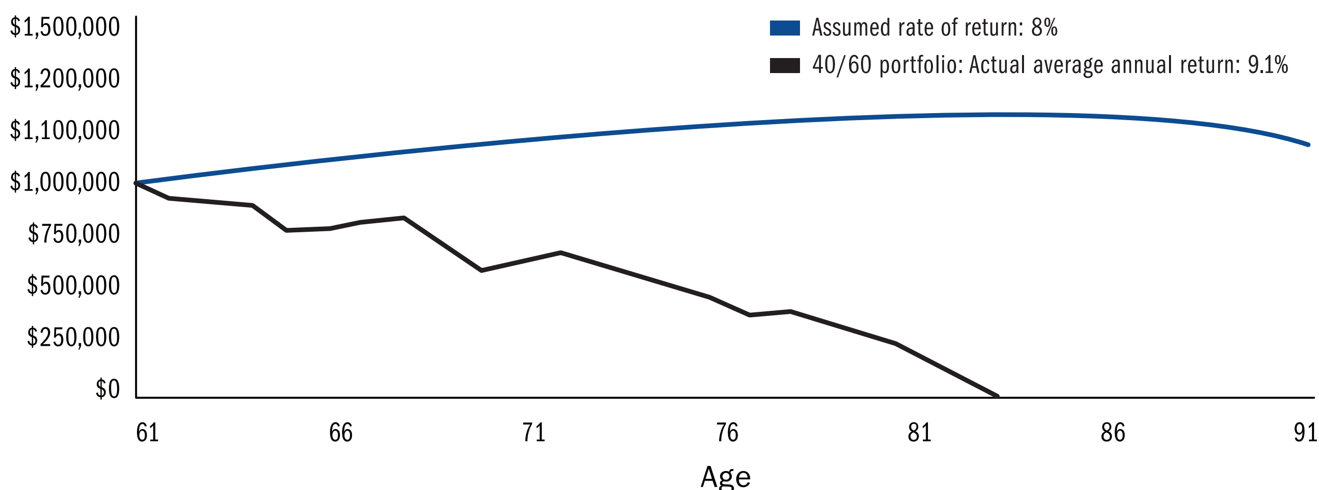
1) **Invest cautiously and carefully.** As the old saying goes, "Quality pays." Invest in things with proven track records.

2) **Give your investments time.** The longer the better. Three years is a good minimum and helps limit the chances of selling on a bad day.

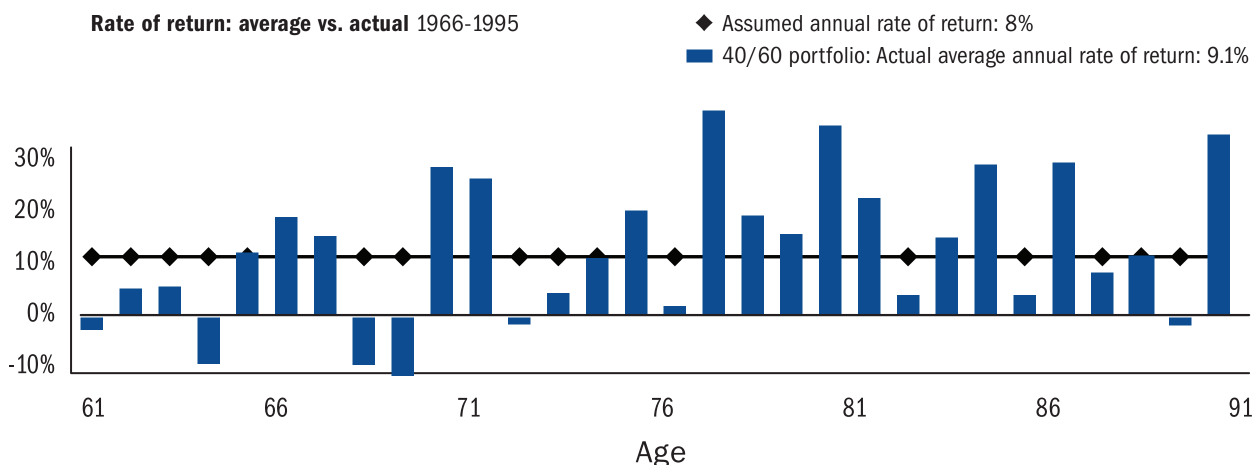
3) **Have a fall back position.** *Also known as extra cash!* Even when cash is paying nothing, it still serves a purpose. It allows you to keep living while the markets are down. It allows you to take advantage of the occasional avalanches and invest in things while they are on sale. Extra cash also helps you sleep better.

## DOLLAR COST AVERAGING – TIMING RISK OF WITHDRAWALS

*Sequence return risk.* Withdrawing assets in volatile markets early in retirment can ravage your portfolio. Adjust your plan regularly, and you may want to evaluate investment solutions that provide downside protection.




**Assumptions:** Enter retirement age 60 with $1,000,000. Start with a 5.4% withdrawal of $54,000. Increase dollar amount of withdrawal by overall rate of inflation (3%) each year, which is lower than the average inflation rate of the period between 1966-1995.




*Source: J.P. Morgan Asset Management. Returns are based on hypothetical portfolio, which is assumed to be invested 40% in the S&P 500 Total Return Index and 60% in Barclays Capital US Aggregate Index. The assumptions are presented for illustrative purposes only. They must not be used, or relied upon, to make investment decisions. There is no direct correlation between a hypothetical investment and the anticipated future return of an index. Past performance does not guarantee future results.*

## Taking Care of Mom and Dad

We may not like it, but nearly all of us will be a *"caregiver"* at some point. The good news is you won't regret being there for family. But!!! It's very stressful and difficult in so many ways. The best steps you can take today is to prepare. Anticipate what the future may hold and get ready for the "what if" situations. Those who are, or have been caregivers, will have stories to share and advice to offer. The most common being, ***"I wish we had…"*** Now is the time to prepare. And if you're already there, now is the time to make sure all the bases are covered.

1. **TALK ABOUT IT!** Discussing the *"what if…"* possibilities with aging parents or family can be challenging, but worth it. How much money do they have? What are their income sources? Do they have insurance? Who are the professionals helping them today? What are their wishes if their health deteriorates?
2. **IS THEIR ESTATE IN ORDER?** We are being asked regularly about Medicaid Planning; i.e. how do we make sure the government doesn't get our money? Make sure the finances are organized. This step alone solves many potential problems.
3. **GET ORGANIZED!** Where are all the financial records? Is it all organized? Easy to access?
4. **KNOW WHAT'S IMPORTANT TO THEM**. For example, most of us want to live/die at home no matter what, but *"what if"* that isn't possible? While it may not be possible to meet all their needs, wants and desires, knowing what their wishes are helps.
5. **GET PROFESSIONAL HELP.** We see it all here. The most common problem is lack of communication and bad/old/wrong information. *"My neighbor said…"* The options become pretty black and white when the financial picture is clear. Seeking financial and legal advice in a crisis is stressful, so the time for advice is when everyone can be involved. Don't hesitate to get professional advice as needed.
6. **CAN THE GOVERNMENT HELP?** There are possibilities. The most common option overlooked is veterans assistance. How does Medicaid work? The most common misunderstanding about Medicaid is not understanding it is a form of welfare. The benefits are substantial, but only if you qualify. And like all welfare, there are hidden costs that can be significant. One website to use is www.BenefitsCheckUp.org.
7. **START HELPING NOW?** While your parents or family are still able, why not get educated about their finances before they need help? Observing how they are managing their affairs today can be of tremendous value when the day comes to take over. Recent studies reveal that our ability to manage our financial affairs can begin deteriorating as early as 60 years old. As a result, monitoring someone's spending habits can serve as an early warning sign for developing medical problems. There is a fine line between "helping" and insulting your folks. You know them, tread lightly and always with respect!
8. **THE ENEMIES ARE REAL.** We all are targets today, but we become more vulnerable as we age. Make sure your parents' routines and affairs are as simple as possible. What can be done today to decrease the likelihood of being taken advantage of via telephone, mail, computer, daily routines, etc. If they are still using their computer, then make sure how they use them does not increase the odds of a hacker gaining access. The most common mistake (for young and old!) is clicking on spam or phishing attempts. Another is giving personal information over the telephone to people impersonating the government, bank, doctor, etc. Encourage them to call whenever they have a question, are unsure or confused. Like a hunter looking for footprints, if the bad guys aren't seeing many, they'll move on to better opportunities.
9. **DON'T FORGET YOU!** The caregiver role is tremendously stressful. It can be very expensive. Don't leave your current life and routine without a full understanding of the costs. It is better to keep your job and get help to maintain a balanced lifestyle. More and more companies are offering benefits to employees who become caregivers. Review your employee handbook to see what benefits are available and/or talk to your boss. Again, care-giving is taxing personally, professionally, physically, spiritually, emotionally and financially. Get help. Respect the stress you are under. Schedule breaks. Keep it simple. A daily nap can go a long way toward maintaining the proper balance. Or a chance to pursue your hobby, go for a walk, ride a bike… Take your breaks regularly. It may take some time to find the best routine, but like sleep, having breaks is critical. If you don't take care of yourself, then you won't be able to help your parents or the family member effectively. Check into local support groups. One website to check is www.caregiving.com.
   *(Source: Wealth Management, Financial Advisor)*

## FIDELITY UPDATE

Thanks to all who volunteered to help get started at Fidelity with ~$30,000,000. We'll provide an update at the client dinner on August 23rd. Both LPL and Fidelity are constantly improving the technology on their platforms as the "race to zero" in our industry continues. While the cost to manage money continues to drop, the time and cost to maintain a client file continues to increase. The other work in progress is the line between automated and professional advice. Like medical care, government is trying to set the prices for the financial industry. How much is it worth to sit with one of the best financial advisors in the country versus talk on the phone with a CFP® at Vanguard? We charge as little as possible, but ever growing government and industry regulations are forcing us to revisit our service models for clients generating less than $500 a year of revenue. *(Source: Fidelity, LPL, DOL, Finra, Financial Advisor, IBCFP)*

## WHEN WILL I BE BROKE?

How much retirees can spend is an ongoing debate. Always remember the fundamentals; ***spend less than you earn, be or become debt free and "divide your portions."*** Follow the fundamentals and you will be fine. One recent study, *"Spend Safely,"* concluded the best plan for middle income Americans is to delay Social Security and withdraw only the required minimum distribution (RMD) from their retirement accounts. Sounds simple enough. One problem is you must continue working until age 70, when the reality is few of us will want or be able to . The other is the RMD is less than 4% at 70 1/2. Every strategy has costs and benefits. Why scrimp in retirement only to leave a large nest egg to family who will likely spend it very quickly on new cars, vacations, etc.? Why spend too much and risk living out of your car in your 80s? Why buy a *"guaranteed annuity"* and run the risk of neither you or your family benefiting from your hard earned retirement savings? What is the best retirement investment? Stocks. Oops! While they offer the best return over time, they also have the bumpiest ride. Few retirees can handle the turbulence as they get older. As always, come and see us. We send out retirement checks to clients every day. We know what works and what doesn't. *(Source: Kiplinger, Stanford University, Wall Street Journal).*

## MEDICARE ADVANTAGE OR ORIGINAL MEDICARE?

***It depends!*** Advantage plans offer benefits that original Medicare does not, such as dental and vision coverage and health club memberships. Original Medicare allows you to select your doctor if he/she accepts Medicare. With Advantage, enrollees must stay within the network or face higher costs. Similarly, Advantage members must be referred to a specialist along with plan authorization to be covered. *(Source: Kiplinger, Blue Cross)*

## LIFE INSURANCE INSIGHTS

Coverage often costs less than most realize. If you are 50 or younger, and in good health, then the cost per $1,000 of coverage can be very inexpensive. You can have more than one policy. If you're wanting to leave money behind to your church, charity or alma mater, funding a separate policy can be an excellent way to do so. Yes, money can be left to someone other than family. Time is money! The longer you wait to get coverage, the more expensive it becomes. Also, your health can change, making it harder or impossible to get coverage. (Source: Kiplingers)

## THE GOVERNMENT IS COMING!

Actually, they're already here. The only difference being how their oversight has intensified the past 10 years. For the moment, the clear trend is toward a ***"fiduciary standard."*** The problem is who writes the definition. In truth, one can define ***"best interests"*** as helping people for free. Hopefully, that is not where this road will end. It is unlikely that many will be in business without compensation. The other challenge, like any law, rule and/or regulation, is there will be those who comply and those who don't. Thankfully, JFR has always been on the low end of fees and commissions compared to industry standards. Another important definition in the debate is ***"conflict of interest."*** For the moment, the government does not require ***"no conflicts of interest"*** but does require the conflicts be disclosed. Why? Any compensation is a conflict of interest! The American Bar Association, the oversight group for attorneys, has a public awareness piece that says, ***"There is an inherent conflict of interest in almost every ... relationship ... it's called ... fees."*** JFR offers flat fees, hourly billing, fees based on the assets under management (AUM) and commission based investments. Which form of compensation we use is based on each client's needs. The trend over the past 10 years has been less revenue per client thanks to increasing competition and improving technology. This trend will continue until it ends. The only mystery is where and when the bottom will arrive. In the meantime, the demand for what we do continues to grow. It's what we refer to as a ***"happy problem."*** I will address the matter in more detail at the annual client dinner. *(Sourc: Wall Street Journal, Investment News, Advisor Perspectives, ABA, SEC, CFP Standards Board)*

## JUST ANOTHER $1 BILLION A DAY

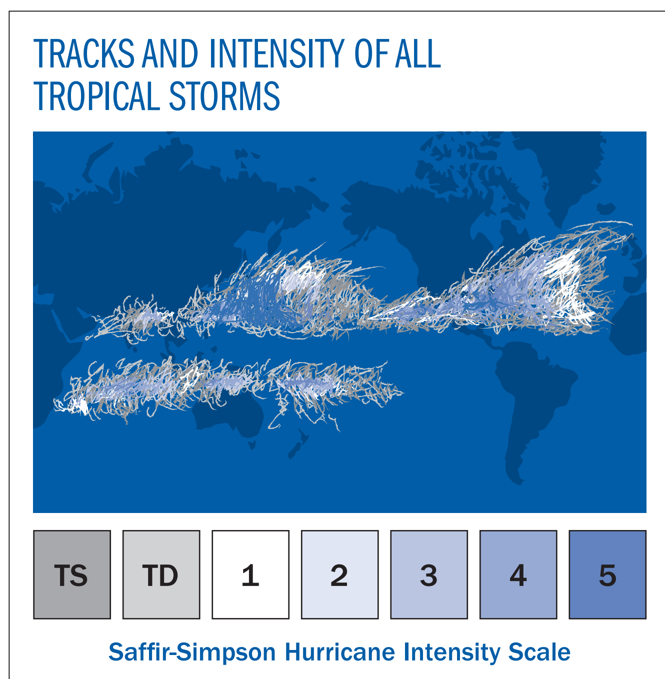
Social Security outlays by the US government in 2017 were $2.6 billion a day. Outlays in 2007 were $1.6 billion a day. Now that's inflation! *(Source: Office of Management and Budget).*

## I WANT TO BE A MILLIONAIRE!

If you can only save $100 per month, then it will take 46 years with a 10% average return, 60 years at 7% and 89 years at 4%. **But wait!** If you increase your savings by 5% each year, then you reduce the time required to 41 years at 10%, 48 years at 7% and 61 years at 4%. If you save $300 per month with no increase, then it takes 35 years with a 10% return, 44 years at 7% and 64 years at 4%. If you increase $300 per month by 5% each year, then the time required is 30 years at 10%, 35 years at 7% and 42 years at 4%. *(Source: Thomson Reuters Investment View)*

## PATTERNS

Look at 150 years of tropical storm footprints. Notice a pattern? The financial markets have patterns too. At the moment, we are overdue for a storm. It doesn't feel like it, but 2018 has been ***"normal"*** compared to an unusually calm 2017. What will happen next? Impossible to predict, except for the fact that the markets will likely repeat one or more of the well established patterns from the past just as tropical storms do. Thinking it will be ***"different this time"*** is not consistent with history. My favorite part of the picture is how the storms never cross the equator. A ***"line in the sand"*** as it were. What to do? Have a financial plan to weather the storms. *(Source: NOAA)*




## BUY! SELL! HOLD!

The 2008-2009 bear market was one of the worst in history. Combined with the tech bubble in 2000, we have already experienced 2 once in a lifetime bear markets! Thankfully, it is still possible to find balance. Going back to 1871, market downturns, like tropical storms, have patterns. 33% of market downturns recover within a month. 50% of market downturns recover within 2 months. 80% of market downturns recover within 1 year. 95% of the time, the ***"once in a lifetime drops"*** recover in 3 to 4 years. All together, since 1871 the average recovery time for a market correction and/or bear market (top to trough, to top again) is 8 months. Doesn't seem very long, but… When individual investors watch the markets hourly, daily, weekly, monthly and quarterly as if their lives depended on it, they have a tendency to make mistakes. What to do? Like sports, remember the statistics next time you are getting concerned or anxious. Turn off the radio, turn off the television, log out of your computer, call us… No one knows when we are at the top or bottom. If someone claims they do, then don't listen to them! Develop a plan based on sound principles and stick with it. ***That's what we're here for!*** *(Source: AAII)*

## HOW MUCH CAN I SPEND?

There is more than one answer. The primary factor is how the money is invested. Eggheads are crunching numbers constantly to come up with the perfect strategy. The good news is there are principles to follow that we have covered many times. A 4% withdrawal rate, the most common figure, offers a very low risk of outliving your money. However! There are risks and rewards to every strategy. High inflation being one. As a result, retirees need to remember the importance of ***"Spend<Earn"*** and adapt if/when circumstances dictate. We assume you are going to live forever. If there is the risk of outliving your money, then we will let you know! There are other variables when determining a withdrawal strategy. A healthy 65 year old should be more conservative than an 85 year old with health problems. The ultimate mystery is the market performance, which will have extended periods of good and bad performance. You can spend more in the good years, but must be ready to cut back in bad years. A recent study reviewed a retiree with $1,000,000 who invested 50% in stocks, 40% in bonds, 10% cash and a 4% withdrawal rate. They analyzed every 30 year period between 1926 and 2017. They also adjusted for inflation every year, which increases the total withdrawals by 50-100% dependent on the withdrawal rate. History teaches that the 50/40/10 investment strategy will average 6-12%. That's quite a range! One scenario with a 3% withdrawal rate and 7% inflation still had a 95% success rate. A 4% withdrawal rate works very well until the inflation rate exceeds 5%. History teaches that inflation has averaged 3-4% over the past 100 years. 5% withdrawal rates are risky if inflation is 3% or higher. Regardless, there is no magic formula. Only principles that work and those that don't. The study used very simple portfolio assumptions, but again, eggheads crunching numbers daily continue to conclude that spending less than you earn is best. The majority of these studies adjust for inflation over time. As a result, how much is withdrawn increases dramatically over time even with just a 3% increase. The worst case scenario, from 1966-1995, revealed that a 3% withdrawal rate would have done okay, but a 4% withdrawal plus inflation adjustments would have exhausted the portfolio in 25 years. In this time-frame the initial withdrawal of $40,000 would have increased to $200,000 due to the inflation adjustments. What if we start off with a 7% withdrawal and never increase it? This would be similar to taking out an annuity. The plan provides more cash today, but ignores the risks of inflation, longevity and/or unexpected needs down the road. What is the best investment strategy? Today, many retired investors are ***"reaching"*** for yield. Junk bonds, REITS, closed-end funds, etc. are becoming more common. As most of us will remember, these investments crashed in 2008 along with stocks. Had one continued to spend the interest/dividends generated, the investment value would still be less than what it was before the crash. Many ***"experts"*** will say reaching for yield is the same as reaching for risk. Over the entire period, stocks averaged 10%, bonds 6% and inflation 3%. As a result, the ***"real"*** return for stocks was 7% and bonds 3%. While it is common to reduce the money allocated to stocks as we age, the price is a reduction in the real return on your money. The ultimate mystery is when are

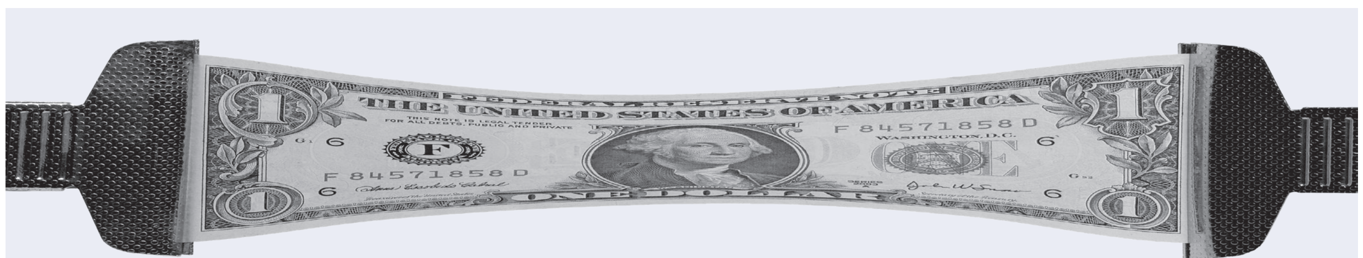
we going to die? Moving everything into bonds results in the possibility of the portfolio not being able to sustain the desired lifestyle. The key is not having to sell much or anything in a bad year. Bear markets usually last for less than a year. Being able to cut back during the bad times is the ultimate weapon against outliving your money. In conclusion! A diversified portfolio, combined with a conservative withdrawal rate, is the best approach based on history. AKA *"Spend less than you Earn," "Be/ Become Debt Free" and "Divide Your Portions." (Source: Financial Advisor Magazine, Congressional Budget Office, Cooley,Hubbard,Walz 1998)*

## INVESTING & EMOTIONS

The best analogies for our business are lighthouse and navigator. Nearly all of our clients use us as the navigator, where we are in the boat with you. As the sea and/or weather changes, we adjust accordingly. We follow proven principles and strategies to help your boat arrive at the desired destination. We don't know exactly what kind of weather we will run into along the way, but we're confident we will arrive safely. **GOOD INVESTMENT PRACTICES ARE NOT DICTATED BY FEAR OF THE FUTURE.** You must believe in, and follow, time tested principles. It's also necessary to avoid thinking *"it's different this time."* Another healthy practice is to ignore the daily chatter. Anything can happen on any given day. The markets do react, but over time the market goes up thanks to profits and economic growth. If you want to look at the market every day, then try to limit it to once a day after the close. Once you're able to look just once a day, set a goal to look just once a week. And then once a month. Hopefully, you'll only look once every three months. Market studies continue to confirm the best results are achieved by not even looking at your accounts! Our third principle, *"Divide Your Portions"* is also critical. Do not have too much in any one investment where its collapse will result in a change of plans or lifestyle. What about income? Today, many investors are *"chasing yield."* And for good reason. With CDs only paying 1-2%, most need or want more than that. The problem is interest and dividends are only one part of the total return. To combat inflation, you need for a portion of your portfolio to appreciate in value. One popular writer today, compares investing to having a well. Not only rain fills the well, but also snow. As long as you draw less than what's coming in, you'll be fine. The problem with chasing yield is most high interest and dividend investments don't appreciate, increasing the risk of running out of money as inflation slowly eats away at your principal. If you're managing your finances based on proven principles, then there is no reason to worry or be afraid. Bear markets, wars, debt crises, etc. will all come and go. As long as you sit tight, you will be okay.

## ARE MY BONDS SAFE?

For the 30+ years I've been managing money, bonds have provided a steady and safe return. Why? Interest rates, overall, have been falling. While professionals all over the world are shocked by how far and for how long falling interest rates have been the trend, it has made managing bonds in a portfolio relatively simple. This is no longer the case. Rising rates, low income and geopolitical tension have brought the *"set it and forget it"* days to an end. *"Passive investing"* in the bond market is not likely to provide the desired result in 2018 or the years to come. Thankfully, the fundamentals do not change. One large money manager refers to the process as the *"Three C's."* There is the *"Core"* portion, which is intended to meet the basic needs of why investors hold bonds; income, diversification and stability. The Second C is *"Complement,"* which seeks to increase income, capture trends and enhance diversification around the core allocation. The Third C is *"Cushion,"* which is designed to reduce uncertainty while continuing to provide income. As in the past, we will remain very cautious with the bonds in your portfolio. *(Source: State Street Global Advisors)*



## SSSSSTRETCHING YOUR IRA

Whether a child, cousin, friend, or charity, the rules for inheriting an IRA are much more complicated than for a spouse. Non-spouses can stretch inherited IRAs over their lifetimes, but only if they play by the rules. In most cases, it is up to them as opposed to you. We commonly discuss the options with parents who are concerned their hard earned dollars will be wasted on a Shelby Mustang or whatever. There are options where you can control your IRA beyond the grave, but there is a cost. The least cost option is to rely on your beneficiary to honor your wishes. But will they? And what about the situation where your daughter is willing to honor your wishes, but your son-in-law is not? The first step is communication. Let your beneficiaries know what your wishes are and put them in writing. Based on the response, adjust accordingly. If you can afford it, give your beneficiaries some money now to see what they do with it. If they pass the test with a small amount, then it improves the odds they will do the right thing with their inheritance. Most important is the rules for inheriting an IRA are a little complicated for non-spouses. The clock begins to tick after your death and there are decisions to be made that are irrevocable. Mistakes and/ or missed opportunities can be costly and have permanent consequences. *(Source: IRS, Kiplingers)*

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

JULY 2018

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

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

The information provided herein has been obtained from sources believed to be reliable, but JFR Financial Services, Inc. and its Registered Representatives of LPL Financial, member FINRA/SIPC make no representation as to its accuracy or completeness and it should not be relied upon as such. JFR Financial Services, Inc., and LPL Financial accept no liability for any direct or consequential loss arising from any use of this information or its contents. Information in this newsletter is not to be considered a recommendation or an offer to purchase any product.

- Securities offered through LPL Financial, member FINRA/SIPC.
- Investment advice offered through JFR Financial Services, Inc., a Registered Investment Advisor and separate entity from LPL Financial.
- The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
- All indices are unmanaged and may not be invested into directly. *Stock investing involves risk including loss of principal.
- Bonds are subject to market and interest rate risk if sold prior to maturity. Bonds values will decline as interest rates rise and bonds are subject to availability and change in price.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results.

This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

Investing in mutual funds involves risk, including possible loss of principal.

This material contains only general descriptions and is not a solicitation to sell any insurance product or security, nor is it intended as any financial or tax advice. For information about specific insurance needs or situations, contact your insurance agent. This article is intended to assist in educating you about insurance generally and not to provide personal service. They may not take into account your personal characteristics such as budget, assets, risk tolerance, family situation or activities which may affect the type of insurance that would be right for you. In addition, state insurance laws and insurance underwriting rules may affect available coverage and its costs. Guarantees are based on the claims paying ability of the issuing company. If you need more information or would like personal advice you should consult an insurance professional. You may also visit your state's insurance department for more information.