JFR
Financial Stuff
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INSIDE

CJ – Social Chairman

THE 4% RETIREMENT RULE?

This concept was developed nearly 30 years ago. William Bengen studied rolling 30 year stretches of a balanced portfolio (60% stocks, 40% bonds). His conclusion, ***"a first-year withdrawal of 4%, followed by inflation-adjusted withdrawals in subsequent years, should be safe for 30 years."*** He also recommended a 75% stock allocation and no less than 50%. The average inflation during his study was 3%. The formula worked well until life brought us 0% interest rates and stocks selling at all time high multiples. As a result, the number crunchers today are recommending a 3% initial withdrawal rate. Morningstar recommends a flexible withdrawal rate and we agree. That is withdraw less when the markets are falling and more when they are rising. A.K.A. Be flexible. Another threat to the 4% rule today is ***"sequence of return."*** Those who retire when the markets are falling have a more difficult time. The latest threat is higher inflation. While it never went away, it has not been this high in 45 years. **BUT!** The biggest problem for retirees is self-inflicted. A three year survey by the Federal Reserve found that the average balance in retirement accounts is $65,000, which is worth ~$200 per month; much less than the $3,000 per month most retirees need to supplement Social Security. Most need ~$1,000,000 in retirement funds. ***The end result?*** The largest growing segment of the working population today is people 65+. *(Source: Federal Reserve, Morningstar, Price Waterhouse, Tradesmith, JFR)*

IS IT ALL OVER?

We don't know when, why, how or what will cause the markets to rally, but history teaches they will. In the meantime, remember what the probabilities are for the market to fall. *(Source: Plancorp)*

DAY	46%
MONTH	38%
QUARTER	32%
HALF YEAR	26%
ONE YEAR	21%
FIVE YEARS	12%
TEN YEARS	6%

IS THERE A SECRET TO BECOMING “RICH?”

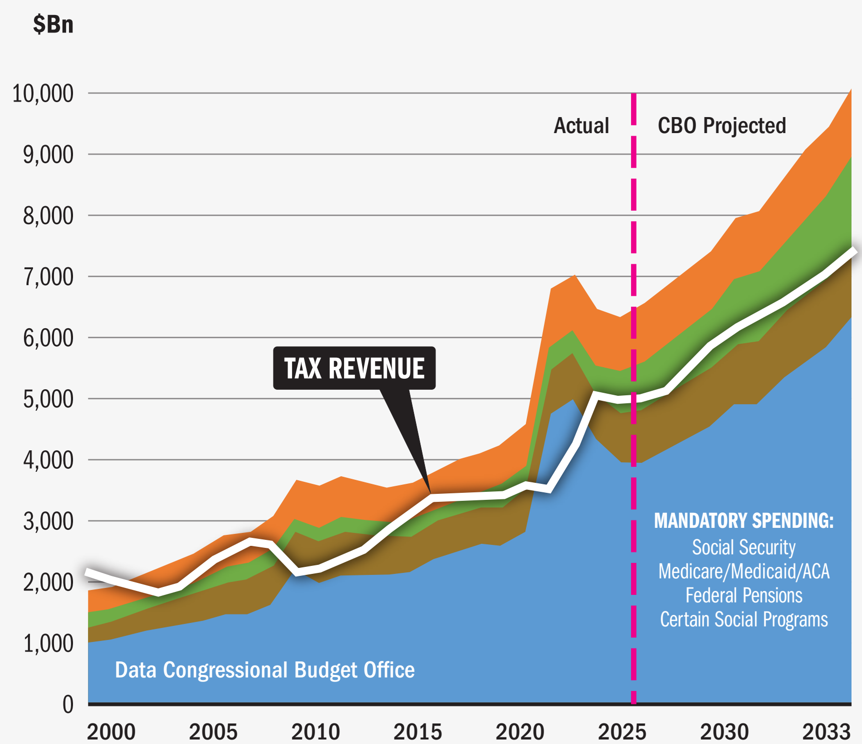
Staying rich? Few Americans become rich. Those who don’t often think rich people have a secret formula. Or that they got lucky. The truth is not complicated. Having enough money, or too much, makes life less stressful and more fun. BUT! Having money is a blessing and a curse, but better than not having enough. Money provides the freedom to do what you want and when you want to. So what’s the secret? The first is an oldie, but goodie. **Spend less than you earn!** Have a passion for it. Most Americans think a bigger house, car, etc. will make them happy. **Not!** Possessions don’t change our happiness over time. Saving money and using it wisely does lead to better health and quality of life. Money generates income. Income provides freedom. Freedom makes us happy. Most Americans not only spend every penny, they spend more thinking what they buy will make them happy. They think keeping up with the Jones leads to happiness. **Not!** The Jones spend too much. They have lease cars and credit card debt. 40% of Americans can’t come up with $400 in an emergency. How about driving a car for 10 years in exchange for a nice vacation each year? Saving money gives you the option. Don’t buy things that don’t make you happy. The initial savings goal should be 10%. ***It’s not about raising your income. It’s about eliminating unnecessary expenses.*** The next step is long term investing. Suppose you saved 20% of your income for 30 years. You should have 6 years of worth of income! What’s that worth? Not much if it’s not invested. The third key is risk. Most Americans do not respect risk. They decide the money sitting in the bank should be invested, but they do not manage the risk. Return is nothing without understanding the risk. Our time has value as well. Improve your skills and knowledge and you increase your income. Most Americans do not have a good financial plan or a good life plan. The good news is neither are complicated! They simply require making a few decisions and following through on them. Even if you have no passion for investing, it’s not complicated. Keeping your costs down pays off over time just like driving a car that gets good mileage. Save money every month. More commonly known as dollar cost averaging. It works much better than buy low, sell high. If you spend your savings instead of investing it, then you’ll never enjoy it.

It takes time to generate more income, but once it happens… **Don’t forget risk!** It takes time to become wealthy when you’re doing it the right way. Nothing wrong with home runs, but winning the game requires having guys on base. ***“Divide your portions.”*** There’s that principle again! It fits right in with the topic of risk. There are all kinds of strategies, but at the end of the day it’s a simple matter of investing in things with proven track records and not putting too much in any one investment. There’s an old saying about it’s possible to get rich on one stock, but it’s not possible to stay rich on one stock. The industry term is diversification. Multiple asset classes with measured allocations. Why don’t people get rich? They don’t follow all 3 of the principles together. Savings without investments don’t grow. Inflation eats it up. Good investments without saving enough doesn’t accumulate enough wealth. Putting all your eggs in one basket results in big losses that offset the big wins. *(Source: Stansberry, Investor Place, JFR)*

$100,000 ISN’T WHAT IT USED TO BE

A record 35% of all US households will have incomes of $100,000+ in 2023, which is up 50%+ over the last 30 years. **BUT!** Adjusted for inflation, $100,000 today is the same as an income of $47,340 thirty years ago, $60,965 twenty years ago and $77,000 ten years ago. **Ouch!** *(Source: MFS Funds)*

FEDERAL SPENDING VS. TAX REVENUE, 2000-2033



Source: Mauldin Economics

GOVERNMENT

On Good Friday, ***while the markets were closed,*** Washington released the latest economic numbers. Why on such an important holiday while everyone was sleeping in? Made me think of as the National Debt goes up, like blood pressure, it serves as a silent killer. Until it causes a heart attack or stroke, the symptoms are ignored. In the meantime, why not let banks fail? Bad restaurants go out of business. Children grow up and find better paying jobs. Bad athletes have to find another way to earn a living. Why should we pay for the failure of a mismanaged bank? That is capitalism. Can central bankers improve the way private markets invest money? Can politicians and/or government bureaucrats better manage our lives than we can on our own? For better or worse, mostly better, capitalism drives progress. It rewards success and penalizes failure. Like winning and losing in sports, we learn from both. The more we win, the more wealth we accumulate. We get rid of what doesn't work. And everyone is better off when a bad cook becomes a good banker. Or a bad engineer becomes a doctor. The poorest of the poor in America are better off than 85% of the rest of the world. **BUT!** Capitalism can fail if/when enough weight and pressure is applied. There is always tension. There is money, knowledge and power today that will be replaced by the yet to be discovered wealth, knowledge and power coming tomorrow. Farmers used to turn over the dirt by hand in order to plant their crops. Then came the hoe. Then came the wood plow pulled by a horse. Then a metal plow. Today advanced technology does nearly everything while the farmer sits in the air conditioned cab watching a movie! *(Source: JFR, Bill Bonner, AIER) 80/20 –*

ANY GOOD NEWS?

There's a joke about a better day begins with not stepping on the scale or watching the news. Thankfully, there is good news on the economy. The United States is energy independent. We exported 1.26 million barrels of oil per day in 2022. Our breakeven price is $50 per barrel. We can now earn 4-5% on our cash and CDs! Long way to go, but inflation is coming down. Companies and consumers are very good at adjusting to change. The Federal Reserve has plenty of intelligent people. Get rid of the politics and they do a better job. Our stock market has been the best way to make money for decades. No guarantees, but history suggests stocks will remain the best option. The US dollar is the world's reserve currency, which gives us a tremendous competitive advantage here and around the world. History teaches we will one day lose this advantage, but we are safe for the moment. **Capitalism Rocks!** There are winners and losers in a competitive environment, but we are far and away the best economy in the world. *(Source: WSJ, IBD)*

MAXIMIZING FDIC PROTECTION

Remember when the limit was $50,000 per person? Today, the basic coverage is $250,000 per account per institution. For a married couple this translates into $1,000,000 per bank if they have a joint account and two individual accounts. Is the ***"insurance"*** solvent? The participating banks make payments to the government. There is no trust fund with a bunch of money in it. Fidelity has multiple safeguards, which makes them safer than a bank in many ways. The first protection is the Securities Investor Protection Corporation (SIPC), which protects against fraud on each account up to $500,000 for securities and $250,000 on cash. Fidelity provides additional protection if the SIPC coverage ever reached its limit of as much as $1.9 million per customer. Both SIPC and Fidelity's excess SIPC coverage is limited to securities. Neither SIPC nor the additional coverage protection covers investment losses due to market fluctuations. Federal Deposit Insurance Corporation (FDIC) is provided for cash and CDs issued by a FDIC insured institution up to $250,000 per bank. All FDIC insurance coverage is in accordance with FDIC rules. Fidelity protects client securities that are fully paid for by segregating them and ensuring that they are not used for any other purpose. Fidelity also offers FDIC insured deposit sweeps, which can be coordinated with as many as 5 banks dependent on how much cash needs to be protected. *(Source: Fidelity, FDIC, JFR)*

> *The best politician is not a politician.*
>
> BILL BONNER

HOW MUCH DO I NEED?

A recent survey by Investors Business Daily asked Americans how much they needed to save for retirement. While lifestyle plays a major role, it is safe to conclude **most Americans do not know how much they need, nor are they saving enough**. 18% said they needed to save less than $100,000 to be comfortable in retirement. Another 18% said they had no idea how much they needed. 12% thought somewhere between $100,000 and $250,000 would be enough. 16% thought they needed more than $1,000,000. *(Source: Investors Business Daily)*

THE CHICKEN OR THE EGG?

When it comes to ***"maximizing"*** Social Security and/or retirement account/plan withdrawals, there is no completely black and white answer. The variables are life expectancy, tax laws, return assumptions… As we've repeatedly discussed over the years, all lines for Social Security cross at age 78. If you don't live past 78, then you've left money on the table by waiting. When it comes to retirement money, taxes are very important, but… A recent article suggested taking Social Security at Full Retirement Age (FRA) and delaying retirement plan distributions until the required minimum age of 73. Before the recently passed ***"Secure Act,"*** the ***"experts"*** were recommending delaying Social Security until age 70 and withdrawing retirement plan money. If saving a few bucks on taxes is the only objective, then this strategy may make sense. The problems are life expectancy and return assumptions. Those darn ***"what if"*** questions and possibilities. The good news is sticking with the fundamentals is usually best. Spend your own money first or the government's? Leave money behind or spend it all? Plan for living into your 90s or assume the Lord is going to call you home in your 80s? Along with hundreds of other industry veterans, we are discussing and debating topics every week via chatlines. We are on top of retirement and estate planning. When you have a question, we are here! *(Source: Finanncial Planning, Financial Advisor, Morningstar)*

FREE TAX RETURNS?

The IRS already provides a ***"Free File"*** option for taxpayers with simple returns. The problem is less than 3% of eligible filers use it. The IRS is planning on expanding the service for 2023, which is much more intriguing. If they offer pre-filled forms, then millions of Americans will use it. It makes sense given the IRS receives most or all of the information needed for the vast majority of tax returns. Reducing the time required to file a tax return from the current average of 30 hours, to 3 hours, will result in millions of Americans using the free service. What about JFR? We're used to change. How we get paid has always been a moving target. *(Source: IRS, Kiplinger)*

LARGEST DEFICIT REDUCTION IN HISTORY–***NOT!***

Under the latest debt ceiling agreement, our National Debt will increase from $32 trillion to $36 trillion by the end of 2025. The National Debt reached $1 trillion for the first time in 1981. 20 years later (2001) we were at $5 trillion. $10 trillion by the end of 2008. $20 trillion by the end of 2016. We've blown past the 100% of GDP level, which history teaches is the tipping point for a nation's ability to pay. *(Source: GAO, CBO, Debt.org)*

JFR CLIENT DINNER AUGUST 15TH
MARK YOUR CALENDARS!

AUGUST 2023

SUN	MON	TUE	WED	THU	FRI	SAT
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15 JFR DINNER	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

— Tuesday, August 15th —

As always, you can count on good food, good music, good company and 'Financial Stuff.' There is so much to cover!

INVITATIONS WILL BE EMAILED THIS YEAR

Please RSVP at 734-692-1421

80/20

Life isn't complicated, but people can be. Noticed recently the commonality between lottery winners and children inheriting money. A recent survey by onlinegambling.com reconfirmed the good intentions of 80% of winners using their winnings wisely, but in reality 80% spend it all. ***And very quickly!*** Research from Iowa State University found ***"instead of getting people out of financial trouble, winning the lottery got people into more trouble, including bankruptcy."*** One economic study concluded windfall recipients save only 16 cents of every dollar received. One large factor is often taxes. Someone lucky enough to win $1 million often ends up with less than $600,000 after taxes. The best option? Call us! The difference between good intentions and reality are huge when you get help. I'm reminded of one who paid off all his debts only to end up deeper in debt 10 years later. Or a couple who had to go back to work in their 70s after spending every penny, and a few more, of every dollar they received. Wanting to take the right path is often not enough when you don't have the knowledge, discipline and vision to follow through. Only 3% of Americans are financially independent. ***Not because it is difficult, but by not doing the right things.*** *(Source: JFR, Sudden Money)*

BE HAPPY!

An annual Wall Street Journal survey found the happiest people value community and relationships. They believe in God, are older, and usually retired. Just 12% of those surveyed said they were ***"very happy."*** This is the lowest level since the survey began in 1972. ***COVID? Politics? Economy? Combination of the three?*** 67% of the happiest people said marriage and religion were very important, compared to 43% of all participants. People over 60 represented 40% of the happiest respondents versus 30% of total respondents. Physical fitness was also a common interest of the happiest people. The overall results? If you live in a nice community, have family and friends, believe in God, and are physically active, then it is very likely you are happier than most other Americans. Globally, Americans rank 15th in our level of happiness. *(Source: Wall Street Journal)*

CONVICTION = STRONG PERSUASION OR BELIEF; THE STATE OF BEING CONVINCED

In life, there are things that we should be convicted of and committed to. For example, the love for our families, religion, principles, politics… Added to investing it can be a blessing and a curse. Consider the National Debt. It's going to kill us all and I'm going to survive by putting all my money in the mattress. What if it doesn't happen before you die? How about the world runs out of food. You run out and buy all the survivalist gear and put it in the bunker. 10 years pass and Burger King is still open. What now? Perhaps you are right, but the world doesn't end. It simply pivots and adapts. What if your neighbor is right? Or the writer in the news that you disagree with? 90 years ago John Maynard Keynes said, ***"… we devote our intelligences to anticipating what average opinion expects…"*** If the market senses our conviction, it will take advantage of it. You could have been right, but still lost money. The market loves to take money from weak hands and give it to the strong. Remember 2009? Life as we know it was over. Stocks would soon be worthless. Gold was the only option while the Federal Reserve printed money. We are not far removed from COVID in 2020. The world will end someday, but thinking it is tomorrow has not rewarded those convinced of same. Stocks have outperformed gold over time dramatically. More recently, from the beginning of 2009, $100,000 invested in the S&P 500 is closing in on $600,000 while $100,000 of gold bullion is worth ~$150,000. Gold has its place and time, but over time, stocks have done much better. What about purchasing value? The old adage of how an ounce of gold is worth a new men's suit still applies. In 1900, an expensive men's suit was $35 compared to $2,000 today. An ounce of gold has enjoyed the same appreciation. However, the same $35 invested in stocks in 1900 today would be worth 15 new suits with money left over. Conviction leads to bias that interferes with investing over time. Confirmation bias, loss aversion, narrow framing… The best investors let go of their bias and follow principles. What to do? Turn off the television. Do your research. Conviction and reality can be very different. ***"Divide your portions."*** Our personal investment windows will close. The markets will continue on. Learn from the best, but do not follow them. **A few principles.** Sell your losers. Hang onto your winners if they continue to win. Have goals. Emotions are a problem. Trends will continue until they end. Technicals are best when the fundamentals support them. Average up not down. Focus on risk, not reward. Shoot for a 70% success rate. Will the world come to an end? Eventually. But probably not before us. Being wrong with money isn't the biggest risk. Staying wrong is. *(Source: Financial Advisor, JFR)*

KNOWLEDGE AND WISDOM

"Value investing will be fine; people will continue to do dumb things. No matter how much things change, they remain the same. Whether a trade is submitted with paper on the floor of the New York Stock Exchange, or online, it is still originated by a human. All humans come with the same emotions that we had 50 or even 1,000 years ago. No matter how sophisticated the technology becomes, there will still be humans involved… People trying to outsmart each other in arenas that we don't have to play in. (This is a great point about not getting bonus points for the degree of difficulty!) …If your kids are reading your will for the first time after you die, this is a mistake that you can't correct… If you want to know how to live your life, write your obituary and then live up to it… If you want your kids to have certain values, then it's important that you live those values and talk about them… It's so simple to spend less than you earn, avoid toxic people, toxic activities, keep learning all your life, defer gratification because you prefer it that way… If you do it all this way you will succeed. If not, then you will need a lot of unusual luck... Buying low-quality companies at low prices is like hiring bad employees cheaply. You'd rather pay a bit more and hire a great employee." *(Source: Warren Buffett (90) and Charlie Munger (97) at the Berkshire Annual Meeting)*

> *It's tough to make predictions, especially about the future.*
>
> YOGI BERRA

VEHICLES – *BUY OR LEASE?*

A recent study compared the cost of buying a new compact SUV and driving it for 6 years, leasing the same vehicle for two 3 year terms and buying a 3 year old SUV and driving it for 6 years. No surprise, the best financial decision is to buy used. All other things equal, the cost over 6 years for the used vehicle is ~$25,000. The cost for two 3 year leases is ~$30,000. The cost to buy a new car and drive it for 6 years is ~$32,000. *(Source: Edmunds.com)*

I SHARES S&P GSCI COMMODITY K-1

Each tax season is unique. One surprise this year was the arrival of K-1s from Goldman Sachs in late March ***after*** many had already filed their tax returns! Our Fidelity 1099s account for this activity. The K-1 is duplicate activity. **BUT!** The IRS has a copy. No action is needed for IRA accounts, just taxable accounts. The K-1 differentiates the account type in Part II. There are 2 options. Do nothing and wait for the IRS to contact us. It is possible they will not. Or file an amendment. We continue to work with Fidelity and I Shares to have a corrected K-1 issued, but unlikely at this point. ***Questions?*** Call the office.

RETIREMENT "EXPERTS"

The numbers are being crunched constantly on so many things in an attempt to create or find the perfect solution. Retirement is not a biblical principle, but there is no question there is a ***"time" and/or "season"*** when we will slow down. The retirement ***"experts,"*** like big government, try to fit everyone into the same box. However, the latest ***"findings"*** sound more like ***"Spend<Earn."*** The long standing target of ***"guaranteed"*** is no longer front and center. The new terms are ***"Total Return," "Income Protection," "Time Segmentation"*** and ***"Risk Wrap."*** Why? Life doesn't happen in a straight line. Nor retirement. It's a wonderful time of life, but even better when we are ready and able to adjust as life unfolds. *(Source: CFP, Wade Pfau, Prudential)*

"GUARANTEED?"

Insurance companies are enjoying record breaking years for annuities. A simple explanation is the contracts created over the past 20 years have lower interest guarantees; some 0%, but most 1%. Like banks and credit unions, they are in no hurry to pay more until they have to. Another reason is the new contracts are paying 4%+ and as much as 5.5% for 5-7 year contracts. That wasn't the case last year. Indexed annuities? No cost annuities? It's important to remember insurers are highly regulated. There are tight guardrails set by government regulators around the 10 Year US Treasury rate, which recently was ~3.5%. Annuities have bells and whistles, but the basic foundation is simple. The insurance company gets paid first. The ***"guarantees"*** are beneficial only if you live long enough. In most cases 20+ years. There is nothing wrong with a guarantee. Just make sure you understand how much it costs. We'd be happy to review your annuities for you. Any policies that are out of surrender should be reviewed. Like lower mortgage rates a few years ago, we may be able to increase the interest rate significantly if the cost to do so is very little. Indexed annuities can pay more when interest rates are higher. The cost of the options they use are less. Some renew into higher payouts automatically. Some don't. Surrender charges can be exorbitant. We've seen some policies with 20 year schedules! Another pothole is ***"MVA."*** Market Value Adjustments. Like everything else, they are based on interest rates. And normally the cost increases with interest rates. *(Source: Financial Advisor, Retirement Institute)*

> *The only problem with market timing is getting the timing right.*
>
> LEGENDARY INVESTOR PETER LYNCH

ESTATE PLANNING

We play an important role when a client passes. If they have everything in order, then your beneficiaries will only need death certificates to process the necessary paperwork. Having support above and beyond simply managing investments is important for most of us. Especially when something happens where more support is needed. When we know you and your wishes very well, it helps so much when we meet your children and/or whoever will be in charge. The basic documents are a will and powers of attorney for financial matters. It is also important to have a power of attorney for medical matters. Do you need a trust? Maybe. Maybe not. Trusts were the be all and end all 30 years ago. Now there are options to avoid the need in most cases. It can be appropriate for the power of attorney and/or executor to be someone other than a beneficiary. Let your children know about us and why you work with us. Even better, bring them in! Having a relationship in place before something happens is a good thing. It reduces the odds of mistakes by the person making decisions for you if/when the day comes. For example, protecting assets by planning for Medicaid. Most don't understand the pros and cons of this strategy. No one wants government to get our money, but there are ethical, legal and lifestyle considerations. We assume you are going to live forever and want each day to be as fun and happy as possible.
(Source: Advisor Perspectives, Financial Advisor)

THANK YOU PAT DUNN!

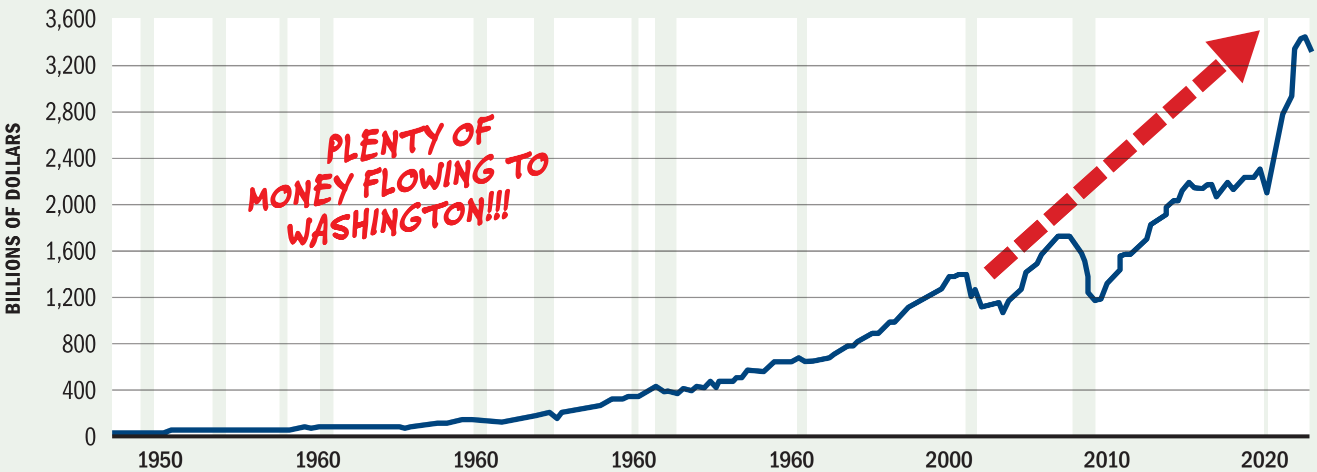
After 23 years of service, Patricia Ann Dunn retired at the end of tax season. ***We have already called her a few times with questions!*** She helped with so many things and will be missed.

LEADERS & ***FOLLOWERS***

Our ***"representatives"*** are not leaders. They follow the pack. There is no courage in that. We have a massive National Debt because we spend money we don't have. It enslaves us and threatens our existence. As Hemingway said about going broke – ***"It happens very slowly and then all of a sudden."*** The Fed is ***"correcting"*** a problem they helped create. The debt ceiling debate is a distraction. The real problem is government spending money we don't have to try and fix things that they shouldn't be involved with. The press helps by generating fear. Arguing over the debt ceiling is like picking up pennies out of the wishing well. More than $4 trillion is flowing into Washington today. More than what they spent in 2019. Why do they need more? They are borrowing because they want to, which goes against what they were elected to do. *(Source: IRS, CBO, WSJ)*

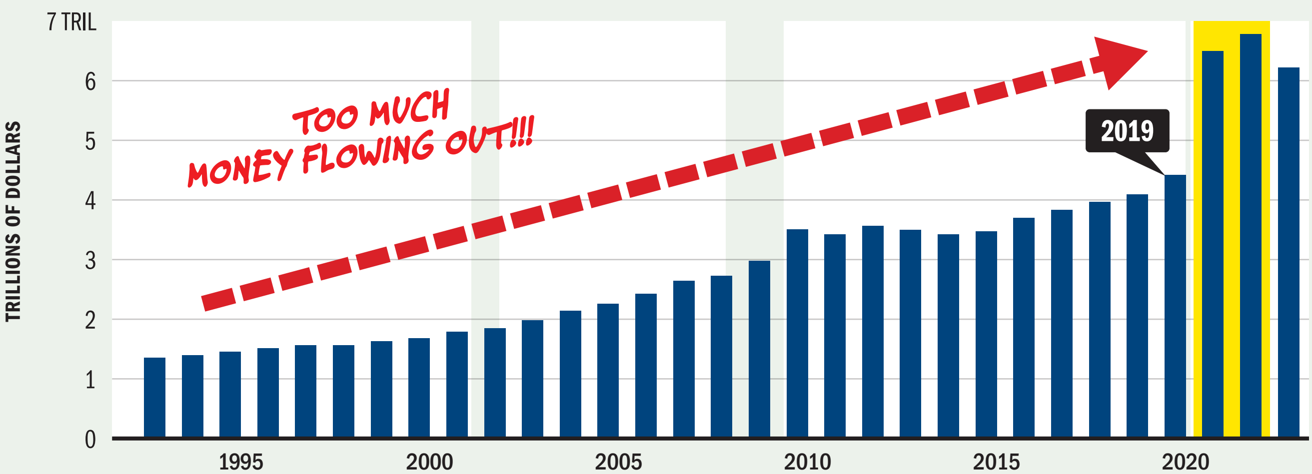
> *When you want to help people, you tell them the truth. When you want to help yourself, you tell them what they want to hear.*
> **THOMAS SOWELL**

FEDERAL GOV'T CURRENT TAX RECEIPTS



Source: FRED®

FEDERAL NET OUTLAYS



Source: FRED®

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AUGUST 2023

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