In This Issue...

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Horsetooth Financial Outlook

WINTER 2019

Securing Your Financial Future

While there might not be much we can do on an individual level to reduce crime, war, or even stock market corrections, we can take all appropriate steps to mitigate the risks under our control. If you're looking for ways to increase your financial security, consider the following tips:

- **Get your estate in order.** While dealing with your own mortality is often difficult, it is one of the most important things you can do to ensure your family can survive financially in the event of your death. Make sure your will reflects your current desires for the disposition of your assets and names a guardian for your minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a healthcare proxy, which delegates healthcare decisions when you are unable to make them.
- **Review your portfolio.** If you're saving for goals that are decades away, stocks probably should continue to hold a major position in your portfolio. A properly diversified portfolio will help protect its value during market declines while still offering higher return potential.
- **Take another look at your life insurance.** You need to purchase an appropriate amount of insurance to protect your family in the event of your death. The amount needed will depend on your current net worth, the lifestyle you want to provide for your family, and your personal circumstances and desires. Since your insurance needs will change over time, assess your insurance coverage periodically, especially after major events in your life.
- **Obtain sufficient disability income insurance.** You should consider disability income insurance if your current assets won't

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Nurturing Your IRA

It's tempting to pay little attention to an individual retirement account (IRA). After all, with a maximum contribution of $5,500 in 2018 and $6,000 in 2019 ($6,500 in 2018 and $7,000 in 2019 if you are over age 50), how much can an IRA contribute to the vast sums you'll need for retirement? The answer is plenty, especially if you follow these tips:

- **Start contributing as soon as possible.** That way, tax-deferred or tax-free compounding of earnings can have a dramatic impact on your IRA's ultimate value. Consider the following example. Four individuals, ages 20, 30, 40, and 50, each contribute $5,000 to an IRA this year. What will that amount grow to when each person reaches age 65, assuming an 8% annual rate of return? The 50-year-old will potentially have $15,861, the 40-year-old will have $34,242, the 30-year-old will have $73,927, and the 20-year-old will have $159,602. Compounding of earnings turned the 20-year-old's contribution into a much larger balance.*
- **Contribute every year until you reach retirement.** Even if you can't afford the maximum contribution, contribute something every year. Over a period of time, a modest investment program can grow to a significant sum. Assume that at age 30, you start

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Financial Future

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support you until age 65. Many companies provide short-term disability insurance, which covers 100% of your salary for three to six months. Long-term disability insurance is typically less common and less generous. Thus, even if you have long-term disability insurance at work, you may want to obtain additional coverage. Your available resources and disability benefits should equal at least 60% of your pretax salary.

❍ **Make sure you have an emergency cash reserve.** Consider setting aside at last three to six months' of living expenses, although the exact amount will depend on your age, health, job outlook, and borrowing capacity. This can help tide you over in case of a job layoff, short-term disability, or large, unexpected expenditure.

❍ **Consider long-term-care insurance.** This coverage may be especially important for women, who tend to outlive their husbands. You should probably purchase the insurance while you are in your 50s or 60s. After that, premiums get much more expensive. Also, if you develop a serious health condition, you may not be able to purchase insurance.

❍ **Protect your financial identity.** While you typically won't have to pay for anything charged by an identity thief, you will have to work to restore your credit and ensure all fraudulent accounts are closed. That can be time-consuming as well as expensive. To help protect your financial identity, only give out your Social Security number when it is required, shred financial documents, cut up old credit cards, and review your credit reports periodically.

❍ **Keep your homeowners insurance up to date.** Review your homeowners policy carefully so you understand what would happen if your home was totally destroyed. It is your responsibility to make sure you have adequate policy limits, so inform your insurance company when you make major improvements, get an inflation rider for your policy, and make sure your policy covers the total cost of rebuilding your home.

❍ **Protect your home.** Obtain a good security system for your home. Make sure all doors are metal or solid wood with deadbolt locks, use bars or locks to secure sliding glass doors, and keep all entrances well lit.

❍ **Properly store important documents.** Documents you might need when banks are closed, such as passports, birth certificates, wills, or insurance policies, can be kept in a fireproof home safe. Other documents, such as deeds, stock certificates, and titles, should be kept in a safe deposit box in a bank.

Please call if you'd like to review these tips in more detail. ❍❍❍

Using P/E Ratios

The price/earnings (P/E) ratio is the price you pay for $1 of a company's earnings. For example, if a company reports basic or diluted earnings of $2 per share and the stock is selling for $20 per share, the P/E ratio is 10 ($20 per share divided by $2 of earnings per share).

This ratio helps you determine if a stock is over or undervalued, helps compare companies in the same industry, and helps to compare the return you are actually earning from the company compared to other investments, such as bonds or real estate.

Here's how it works. Both company A and B are selling for $50 per share. Company A has reported earnings of $10 per share and company B has reported earnings of $20 per share. Company A's P/E ratio is 5, while company B's is 2.5. Company B is cheaper and provides twice the earning power because for the same share price, an investor is getting $20 of earning as opposed to $10 of earnings.

There are also variances in P/E ratios by industry, because there are different expectations for different types of businesses. Technology companies typically sell at larger P/E ratios, because their growth rate and earnings are higher.

The bottom line is you have to do your homework. If you want to buy a stock because it has an attractive P/E ratio, make sure you know why. It may be a great stock to purchase and is just undervalued, but make sure you know if the company is losing business or is poorly managed. It may also be that the entire industry is weak. Don't just buy a stock because it's cheap. Many investors also use the price/earnings to growth ratio, also known as the PEG ratio, because it also factors in the growth rate of a company.

Please call if you'd like to discuss P/E ratios in more detail. ❍❍❍

Nurturing Your IRA

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contributing $5,000 per year to an IRA, earning 8% compounded annually. After one year, you would have only $5,400. But that will grow to $29,333 after five years, $72,433 after 10 years, $228,810 after 20 years, and $861,581 after 35 years, when you turn age 65.* *(Keep in mind that an automatic investing program, such as dollar cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investments, consider your financial ability and willingness to continue purchases through periods of low price levels.)*

❍ **Select investments with care.** Your IRA should be a long-term investment vehicle for retirement, so investments should be appropriate for that long time frame. Even modest changes in your rate of return can substantially impact your IRA's ultimate value. For example, assume you have $10,000 in your IRA, which will be invested for 30 years. If you earn an average rate of return of 6% compounded annually, your balance would equal $57,435. Increase that return to 8%, and your ending balance would equal $100,627, a difference of $43,192.*

❍ **Fund your IRA at the beginning of the year, rather than at the end.** This allows contributions and earnings to compound for a longer period. For example, assume you are 30 years old and make a $5,000 IRA contribution at year-end for 35 years. If you earn 8% compounded annually, your IRA balance would equal $861,584 at age 65. Make the contribution at the beginning of the year instead, and your balance would equal $930,511, a difference of $68,927.* ❍❍❍

** These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment. They do not take into account the effects of commissions or any taxes that may be due.*

Are You Ready for Retirement?

Here are five steps to ensure you are on track:

1. Take advantage of tax-advantaged vehicles. The government gives a range of tax breaks for retirement savings:

❍ **401(k)s and 403(b)s** — Contributions are excluded from taxable income; distributions, including earnings, are taxable at retirement

❍ **Traditional IRAs** — Contributions are fully tax deductible for individuals and couples with no work-sponsored retirement plan, but deductions are limited for individuals and couples with work-sponsored plans and incomes over certain limits; distributions are taxed as ordinary income

❍ **Roth IRAs** — Contributions are taxable; qualified distributions, including earnings, are not taxable at retirement

2. Don't bank on a market boom. It's a double-edged sword: in order to grow your savings large enough to be able to live comfortably for the 20+ years you'll likely spend in retirement, you have to invest those savings in the market. But on the other hand, a market downturn can do significant damage to a nest egg.

The key is to be vigilant about your investments and change your asset allocation as you near retirement. Generally speaking, you should have your money in more aggressive investments the farther you are from retirement, and more conservative investments the closer you are.

At the same time, you need to have a realistic idea of the kinds of returns you can expect based on your given asset allocation, since your projections of those returns are an important part of determining how much you'll need to save to retire comfortably.

3. Make realistic retirement goals so it's easier to sacrifice today for the sake of tomorrow. As human beings, we are notoriously bad at thinking of the interest of our future selves. But sacrificing today — paring down your vacation plans or buying a less luxurious car, for example — is easier if you have a very clear, tangible concept of exactly what you're sacrificing for.

Sit down with your significant other and think of the things you want to be able to do in your golden years. Maybe it's an annual month-long European tour, an Alaskan cruise, or once-a-quarter trips to visit the grandkids. Budget how much those plans will cost (taking inflation into account).

4. Make retirement savings automatic. Another way to make saving easier is to make it automatic — many advisors refer to this as paying yourself first. If the money you've budgeted as retirement savings never makes it to your pocket, you'll be much less inclined to spend it. Some retirement plans are already set up this way: an employer-sponsored 401(k), for example, will deduct contributions from your paycheck. You can also set up other retirement plans — like IRAs — to deduct a certain amount from your bank account every month.

5. Take an honest look at how much you'll need in retirement — and how much you have to save now to get there. The most important step you need to take is to determine, based on your current income and net worth, a dollar amount that will give you a replacement rate of 70% or more — and a strategy for saving so that by the time you're ready to retire, you've met your goal. Please call if you'd like to discuss this in more detail. ❍❍❍

FINANCIAL DATA

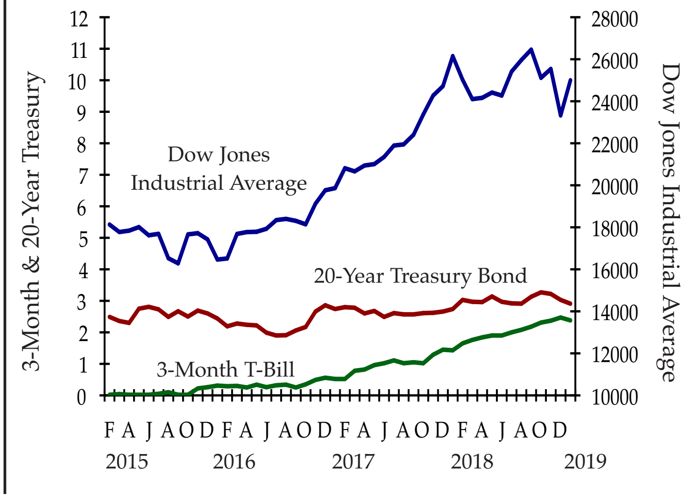
Indicator	Nov-18	Dec-18	Jan-19	Dec-17	Jan-18
	Month-end				
Prime rate	5.25	5.50	5.50	4.50	4.50
Money market rate	0.58	0.56	0.59	0.33	0.30
3-month T-bill yield	2.37	2.47	2.38	1.45	1.43
20-year T-bond yield	3.22	3.03	2.91	2.66	2.74
Dow Jones Corp.	4.50	4.40	4.16	3.13	3.29
30-year fixed mortgage	4.42	4.16	4.11	3.51	3.75
GDP (adj. annual rate)#	+2.20	+4.20	+3.50	+2.90	+3.20

Indicator	Nov-18	Dec-18	Jan-19	YTD	12-Mon.
	Month-end			% Change	
Dow Jones Industrials	25538.46	23327.46	24999.67	7.2%	-4.4%
Standard & Poor's 500	2760.17	2506.85	2704.10	7.9%	-4.2%
Nasdaq Composite	7330.54	6635.28	7281.74	9.7%	-1.8%
Gold	1217.55	1281.65	1323.25	3.2%	-1.6%
Consumer price index@	252.89	252.04	251.23	-0.3%	1.9%
Unemployment rate@	3.70	3.70	3.90	5.4%	-4.9%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

FEBRUARY 2015 TO JANUARY 2019



Past performance is not a guarantee of future results.

EVALUATING THE RISING ECONOMY

As I write this winter article, I am actually wishing that we have winter arrive here in Colorado. In our neck of the woods, it's been relatively warm with little snow or precipitation. For my Midwestern friends and East Coasters, I know you've had a different experience. So, here's to a wet February – April in the Rockies.

First of all, I want to let you all know I plan to start sending email reporting for events and allocation advice, in addition to this written newsletter. I will also be sending the newsletter digitally with those announcements.

If I do not have an email for you, or you aren't sure, please contact our office soon to provide one, or send me a message in that regard at **mhall@1stallied.com.**

This should accomplish a couple of things that have frustrated me over the last two years. With the inundation of regulatory items we were posed with over that time range, I felt like I needed to talk about it and its overall effect on the markets, but the complexity of the discussions were hard to put into context in a small amount of newsletter space. By being able to send a periodic email announcement with a shorter and specific purpose, I hope to be on point and timely with the event or topic I present.

These communications may cover scenarios and issues such as:

1) Current market valuation variables and opportunities

2) Journalism: the state of how it is impacting how we perceive the global and U.S. markets, and the impact of political reporting

3) The lag effect of DOL legislation; the confusion and future impact

4) Global markets and the future of investing with that focus

5) Impact of rising interest rates on equity and commodity markets

6) Essential estate planning under current and future law

7) Why investment advice is disappearing, and why it is a potential crisis for future investors

At our annual advisors conference this year in San Antonio, I was struck by one presentation in particular. The speaker was an ex-chief economist for CNBC by the name of Marci Rossell, who outlined, in her opinion, the state of affairs in economic televised reporting. During a question and answer period, she said, "…you need to recognize that CNBC, MSNBC, CNN, FOX, etc., are entertainment shows" and not news stations as they existed in the 1960s and 70s. In other words, even though these companies and their affiliates often "represent" themselves as objective and unbiased, the shows themselves no longer make balance and verified sources of information a priority. Hearing this from a former chief economist of one of the most widely watched "economic" stations around the globe was striking to me as a former journalism student.

Ms. Rossell did say that the most important position an investment advisor can provide is to filter out the noise and be focused on the directly reported government data, such as GDP, employment, and CPI, and reduce the emotional context to a minimum. This is what I have always done with my allocation decision making, and I was glad to hear that from a respected economist.

I look forward to speaking to you again soon, as spring approaches. Thank you for your trust and confidence! ❍❍❍