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financial SUCCESS

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Federal Reserve Policies and Their Economic Impact

The policies of the Federal Reserve directly impact our economy, though the extent of that impact varies. In order to understand the effects of the Federal Reserve's policies, it's important to discern between these policies and those of the legislative branch.

While Congress focuses on a wide range of issues; when it comes to money, their task is what's referred to as fiscal policy: government spending, borrowing, and taxation. To keep the economy balanced and growing, the Federal Reserve steps in to enact what is called monetary policy, primarily focusing on our country's money supply — specifically, currency and price stability. These policies most often involve adjusting interest rates or lending policies to help maintain or reestablish stability with a focus on unemployment and economic growth.

There are two main categories of monetary policy: expansionary, which focuses on increasing the economy's money supply; and contractionary, which focuses on either slowing or decreasing the money supply. Contractionary policy might involve raising interest rates or reserve requirements to discourage lending in an attempt to slow expansion that may lead to inflation. On the other hand, expansionary policy is typically carried out during recessions or times of slow economic growth, when the Fed will

often set lower interest rates or reserve requirements to encourage borrowing — particularly by businesses — in hopes of fostering economic growth and addressing unemployment. Monetary policy enacted by the Fed in the past decade has been largely of a more expansionary nature, although this policy has most recently begun to take a different turn.

The Fed's most notable changes in recent years have been setting

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On a Personal Note

The Greek Philosopher Epictetus said, "Be careful to leave your sons well instructed rather than rich, for the hopes of the instructed are better than the wealth of the ignorant." This past quarter, our firm sought to follow Epictetus' sage advice by participating in Career Day at our children's schools.

On April 1, I spoke to 7th and 8th grade students at North Broward Preparatory School about the importance of saving for a rainy day. I challenged students to consider how much \$5 per day — the average cost of a cup of Starbucks coffee — would accumulate to at the end of one year, five years, and 10 years. Most students were stunned to learn that sacrificing that cup of coffee could leave them with \$10,000 in five years and enough money to buy a new car in

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Federal Reserve

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unusually low interest rates. Beginning in 2008, they initiated what would become a seven-year period of record-low interest rates with the goal of revitalizing the economy and encouraging spending. Lowering interest to speed up the economy is nothing new — the idea stems from the theory that lowering these rates will encourage spending and borrowing via lower-interest credit cards, loans, and mortgages. The hope is that as more money becomes available to spend, consumer demand will increase and businesses will expand to meet that demand. As prices slowly increase, confidence in the dollar and therefore, investing, will follow. As predicted, this seven-year period of low interest rates did just that, though many financial commentators argue this growth has been mediocre at best.

This is because economic growth is *nearly always* measured by a country's gross domestic product (GDP), which is essentially its output of goods and services. Critics of the government's recent policies note the diminished average annual GDP growth percentage of 1% from 2008–2014, as opposed to nearly 3% between 1988 and 2007. This lower GDP rate, coupled with a national debt that has more than tripled since 2008, has left many people and economic experts jaded about monetary and fiscal policy.

Still, forecasters with a more optimistic outlook point to a mostly gradual increase in the GDP growth rate each year (with the exception of 2013), asserting that the 2014 GDP growth percentage of 2.4% marked the highest annual rate in four years, more closely resembling pre-2007 rates. Furthermore, *The S&P Case-Shiller Home Price Index* has noted a stronger housing market since 2012, with an average housing price increase of over 6% per year in spite of month-to-month sales

4 Reasons for Goal-Focused Investing

Here are four specific reasons why a goal-focused approach to investing is important.

Because it puts you in control — If you take a goal-focused approach to investing, you're not just watching the value of your portfolio rise and fall based on the whims of the market. You are making specific decisions designed to help you reach specific goals. If something's not working, you can change the plan.

Because it will be easier to save — Having concrete goals can turn saving from an abstract concept to a specific step needed to take to achieve a certain aim. And studies have shown that the better you are at setting goals, the more you're likely to save.

Because you'll be less focused on how others are doing — If your

father-in-law is bragging about the great return he got on his investments, it can be tempting to drop your plan and copy his moves. But if you're investing toward a goal with a clear plan, you'll be able to congratulate him on his success while staying focused on your needs.

Because it will help you weather market fluctuations — The market goes up and the market goes down. Having a goal-focused approach can help you cope with those ups and downs. If you know that you won't need your money for another 30 years, you can handle some volatility today. But if you're going to need your money in the next couple of years, you can select less-volatile investments. Knowing your specific goals will help you choose the right investments. ○○○

fluctuations. This is up from a reported 33% price fall between the 2006 housing peak and 2012.

In light of labor market indicators, which the Fed believes point to both decreasing unemployment and sustained job gains, monetary policy has most recently begun to take a different shape. In December, the Fed announced plans to gradually increase interest rates in increments of .25% and .50% over the next three years. In addition to increased confidence in economic growth, they expressed concern that prolonged record-low interest rates could be dangerous in the event of another economic lapse, since they'd either be unable to slash interest rates or face lowering these rates into the negative zone.

Interest rates changes aren't the only monetary policy tool implemented by the Fed. As our Central Bank, the Federal Reserve also controls reserve requirements and lends money to U.S. banks. In

December, the Fed tightened these lending policies, announcing a .25% interest rate hike on emergency loans to banks. They also declared they would no longer lend any emergency funds to banks facing bankruptcy. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the new policy will essentially shelter taxpayers from inheriting the potentially costly burden of banks' financial mistakes.

Critics of these new policies, particularly the Fed's decision to raise interest rates, argue that historically, interest rates have only been raised during times of increasing inflation; they assert that with inflation still low by historic standards, the rate hike decision could discourage buying and investing, further stalling the economy from stronger growth.

Please call if you would like to discuss the impact of recent economic trends on your finances. ○○○

Tips for Getting Your Finances in Order

If you're serious about pursuing your financial goals, you need to get your finances in order. Some tips to help in that process include:

✓ **Get organized.** It's difficult to assess how much progress you're making toward your goals if you don't know basic facts like how much your net worth increased during the past year, how you are spending your income, or how well your investments have performed. Organizing your finances will assist in tracking this information.

✓ **Budget your expenditures.** While many people dread the process of analyzing and budgeting expenditures, inefficient and wasted expenditures are often major obstacles to saving for financial goals. Analyzing your expenses will help you find ways to reduce spending and increase savings.

✓ **Develop explicit written financial goals.** Goals help set our financial priorities and provide motivation for reducing spending and saving for the future. Quantify your ultimate goal and interim goals so your progress can be tracked.

✓ **Pay yourself first.** If you wait until the end of the month to

see how much money is left over for saving, you'll probably find that amount is nothing. It's often easier to pay yourself first, and then find ways to reduce spending to pay the rest of your bills.

✓ **Establish an emergency cash reserve.** This will give you funds to deal with short-term emergencies, such as a temporary job loss, a short-term disability, a major home repair, or a large medical bill. How much you need in the reserve will depend on your age, health, job outlook, and ability to borrow quickly.

✓ **Get your debt under control.** Take steps to reduce your consumer debt as much as possible — any interest payments are just reducing the amount available for saving. There are a variety of strategies you can use to either reduce your debt or lower the cost of that debt.

✓ **Invest automatically.** One of the best ways to invest consistently is to make investing automatic. Make arrangements to have a specific amount periodically deducted from your checking or saving account and transferred to an investment account. *(Keep in mind that an automatic saving plan, such as dollar cost averaging, does not*

assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.)

✓ **Develop an investment strategy.** Your strategy will depend on a variety of factors unique to your situation, including your risk tolerance, return expectations, investment period, and investment preferences. Developing an investment strategy requires evaluating many factors, but it can give you a well-thought-out strategy to help pursue your long-term goals.

✓ **Assess your insurance needs, including life, health, disability, long-term care, homeowners, automobile, and personal liability.** Over time, your insurance needs are likely to change. Insurance companies offer innovations and riders that might be applicable to your situation. Reevaluating your insurance can lead to lower premiums with coverage better suited to your situation.

✓ **Take active steps to reduce your taxes.** There are a variety of strategies that can help you reduce your income taxes, thus freeing money for saving. The key is to review those strategies now, so you have plenty of time to implement them.

✓ **Review your estate plan.** If it's been a few years since you've reviewed your estate plan, take time to go over your documents to make sure they still reflect your wishes for your estate's disposition. If you don't have an estate plan, get one in place.

While many of these tips may sound familiar, it is the rare individual who takes advantage of all of them. If you'd like help putting these tips into practice or would like to discuss your finances in more detail, please call. ○○○



On a Personal Note

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10 years. After two hours of educating students on finance, I developed a renewed appreciation for teachers who dedicate their lives to their students.

On May 18, Jennifer Power of our office participated in Career Day at her children's school. She spoke to lower school students at Coral Reef Elementary School in Lake Worth, Florida, about what it means to be a financial planner and how her educational choices led her to become one.

She shared with students that one of the most rewarding aspects of her work lies in helping clients find peace of mind that comes from fulfilling their financial goals — whether it's buying their first house, putting their children through college, or reaching retirement. "The students were very attentive and asked lots of great questions," Jennifer



said. "I hope that my presentation helped spark at least one student's interest in following a career in personal finance."

Jennifer and I were happy to give back to our community by participating in Career Day at our children's schools this past spring. Who knows, maybe we inspired one student to be a financial planner when he or she grows up? In the end, teaching kids the value of "planning for life and preparing for a lifetime" was gratifying to both of us.



Protect Your Financial Security

One of your first financial goals should be to protect your family's financial security. To do so, consider these four items:

✓ **A cash reserve for short-term emergencies, such as a temporary job loss, major home repair, or large medical bill.** A common rule of thumb states that your cash reserve should equal two to six months of living expenses.

✓ **Adequate insurance in all major areas.** Your insurance needs will change over the years, so you may find yourself with too much or too little coverage. Thus, periodically review your life, disability, medical, and homeowners insurance.

✓ **Umbrella liability insurance to protect against major lawsuits.** In addition to the items covered by those policies, an umbrella policy typically covers damages from use of nonowned property in your possession and from lawsuits for libel, slander, defamation of character, and invasion of privacy.

✓ **A power of attorney.** A power of attorney gives an individual you designate the power to act on your behalf when you are incapacitated, allowing him/her to take over your finances and make investment decisions. ○○○

Financial Thoughts

One in five Americans use three or more prescription drugs each month. The average yearly cost of brand-name prescription drugs in the U.S. is \$2,960 (Source: *AARP Magazine*, December 2015).

In 2014, the average annual pretax household income in the U.S. was \$66,877, and the average annual household expenditures was \$53,495 (Source: Bureau of Labor Statistics, 2015).

In 2014, Americans worked an average of 7 hours, 45 minutes per workday. The average amount spent sleeping, the longest daily activity in people's lives, was 8 hours, 48 minutes (Source: Bureau of Labor Statistics, 2015).

The number of women graduating from college is expected to exceed the number of men graduating by 47% in 2025 (Source: U.S. Department of Education, 2015).

In 2014, the average duration for a nursing home stay was 321 days for men and 525 days for women, (846 days) compared to 892 days in 1999 (Source: American Association for Long-Term Care Insurance, 2015).

It is estimated that seven in 10 Americans turning 65 will require some form of long-term care (Source: Congressional Budget Office, 2015). ○○○