

Monthly Update

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Thomas J. Wolf, CFP®

(949) 367-9653

FINANCIAL SPECTRUM – SOCIAL SECURITY OPTIMIZATION:

In the last quarterly bulletin, I reviewed the basics of income tax reviews for clients. In this monthly bulletin I would like to explain the importance of optimizing Social Security collection decisions. We all generally know that Medicare is an age 65 decision under current law, unless you are still employed and covered under an employer plan. But Social Security is a potentially complicated decision, especially for a married couple and to a lesser degree for a single person.

I frequently hear that young people believe they have a greater chance to win the lottery than to collect Social Security. But Social Security, with some minor changes to full retirement age and/or through further means testing the benefit received, appears to be solvent and will likely represent a significant source of retirement income. Social Security is, after all, a “safety net” for workers/families that for whatever reason did not create their own retirement savings. We don’t “own” our account, but rather we are contributing to a common fund from which distributions will be made to those who need it.

It is significant to know however, that the options we are given for “claiming” Social Security benefits are numerous. For example, any individual qualified for Social Security can claim benefits as early as 62. But if they do, they may get limited benefits if they are still working and earn above a specific income. The payment itself at age 62 is significantly reduced from that at an individual’s full retirement age (65 and older). Delaying claiming benefits beyond the full retirement age until age 70 can provide for as much as 40% more income for someone whose full retirement age is 65. In addition to those considerations, there are optional spousal benefits that can be claimed and the selection of these options are especially important when there are significant age differences between spouses, life expectancy concerns, large vs small differences in benefits, etc.

The office subscribes to a service for which Chris has been trained that calculates all possible combinations of claiming benefits, based on various life expectancies and other variables. The output of this process is to recommend the OPTIMUM claiming strategy, based uniquely on your specific circumstances. In my case, for Sue and I, the optimum case recommended provided \$72,000 of benefits more than would result from claiming Social Security benefits at the our full retirement age (66).

If you provide the office a complete copy of your Social Security Statements, which can be obtained from the Social Security website (www.socialsecurity.gov) if you don’t have a recent one, we can determine the optimum recommended strategy for you. I had always assumed that we are all better off waiting as long as possible and claim benefits at age 70, but in our case that was not at all correct.

Portfolio Reallocations:

From August 7 through August 14, I reallocated virtually all client NFS accounts. Some accounts under \$25,000 in value may not have been changed. This change resulted in enhancing our “core” holdings and increasing our allocation to the money market or cash.

The recent downturn in the stock markets around the world has contributed to a considerable amount of speculation about whether this is the beginning of a major market sell off, whether China’s economy is out of control, and whether the Federal Reserve will raise interest rates in September or this year at all. Even Apple stock recently dropped from about \$132 to \$114, nearly 14%, over a three week period.

As mentioned in the last bulletin, I track the number of stocks in the S&P100 index trading above their 200 day moving average (i.e., in an UP trend). Last July (2014) at the top of the market before the Ebola virus scare, the number of stocks trading above trend was 97. The index rose to an all-time high in May of this year with only 80 stocks (down from 97) trading above trend. As I write this (August 18) the number is only 57. I read that to mean the underlying strength of the index has declined.

Various commodities, such as oil/gas, gold, materials, etc. have declined in price. Emerging market indices around the world are depressed in price. Even Walmart stock trading at \$90 in January of 2015 closed today at \$69.48, down about 22% in share price.

Meanwhile Treasury bond prices are basically flat year to date. The “markets” this year are providing little upside to take advantage of. And if you were focused in certain areas of the market, or in certain stocks, you may have experienced substantial declines.

EVENTS FROM THE GRANDKIDS:



Morgan, Samantha, and Allison in Toon Town, Disneyland



Thomas at petting zoo with guinea pig.



Brooke at petting zoo with her guinea pig.

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Past performance is not indicative of future returns. In general the bond market is volatile, and fixed income securities carry interest rate risk. Fixed income securities also carry inflation risk and credit and default risks. Any fixed income security sold or redeemed prior to maturity may be subject to substantial gain or loss.

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