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Horsetooth Financial
www.HorsetoothFinancialLLC.com
220 Willow Street, Unit 101
Fort Collins, CO 80524
(970) 377-3570
Toll Free (800) 275-6412

Michael G. Hall

Horsetooth Financial Outlook

FALL 2018

Squeezed by Competing Needs

At a time when baby boomer couples should be saving for their own retirements, many feel squeezed by competing financial needs. Having started families later than past generations, their children may just now be entering college or still living at home. At the same time, aging parents may need financial assistance. It is a dilemma that is likely to become more common.

Caring for Parents

As life expectancies continue to rise, it becomes increasingly likely that you may need to help an aging parent. Some financial precautions you should consider now include:

- Investigate long-term-care insurance for your parents. If they can't afford the insurance, you may want to purchase it for them.
- Have your parents prepare a listing of their assets, liabilities, and income sources, including the location of important documents. This can save time if you need to take over their finances.
- Make sure your parents have legal documents in place so someone can take over their financial affairs if they become incapacitated.
- Understand the tax laws if you provide financial support to your parents. You may be able to claim them as dependents if you provide more than half of their support. Additionally, you may be able to deduct medical expenses paid on their behalf.
- Find out if your employer offers a flexible spending account for elder care. This may allow you to set aside pretax dollars to pay elder-care expenses.

Assisting Your Children

For many families, college costs are significant. While you may want to pay all college expenses for your children, it may not be feasible. Some strategies to consider include:

- Shift some of the burden to your

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Revisit Your Asset Allocation

You should reassess your asset allocation periodically. To do so, follow these steps:

1. **Review your desired asset allocation percentages.** When designing your investment strategy, you probably decided what percentage of your portfolio to allocate to different investments. Review those percentages to see if they still make sense for your situation. Over time, how much you want to allocate to different asset classes will probably change as your personal circumstances change. However, don't make significant changes as a result of discomfort over market fluctuations. First, reevaluate these factors:

- **Risk tolerance** — Carefully assess your tolerance for risk so you invest in assets you are comfortable with.
- **Return expectations** — You need to set realistic return expectations for various investments to ensure you meet your investment goals. While past performance is not a guarantee of future results, reviewing historical rates of return can help you assess whether your return expectations are reasonable. Keep in mind that higher returns are generally accompanied by higher risk.
- **Time horizon** — The longer your investment period, the more risk you can typically tolerate. Investing for long periods through different market cycles generally

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Competing Needs

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children, requiring them to work part-time during college or take out student loans.

- ❍ Understand the financial aid system, investigating all financial aid sources. Search for scholarships that are not based on need. Apply to several different colleges, looking for the best aid package. Negotiate with your child's preferred college to see if you can increase that financial aid package.
- ❍ Look for ways to reduce the costs of college. Your child can start at a community college, which is often cheaper than a four-year university, especially if the child commutes from home. Also consider a public university in your state, which will generally be more affordable than a private university.

Once your child graduates from college, don't assume your financial responsibilities are over. Adult children may return home for a variety of reasons — they can't find a well-paying job, they have too much debt to live alone, or they divorce and need financial support. If your child returns home, realize there are increased costs — additional food, phone bills, utilities, etc. Consider charging rent and imposing a deadline on how long he/she can stay.

Don't Forget Yourself

When faced with the competing needs of children and aging parents, it's easy to neglect your own need to save for retirement. But don't feel guilty about your retirement needs. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement. Consider the following:

- ❍ Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Don't give up if that amount is beyond what you are able to save now. Start out saving what you can, resolving to significantly increase your savings once your parents' or children's needs have passed. Also consider changing your retirement plans, perhaps delaying your retirement or reducing your financial needs.
- ❍ Take advantage of all retirement plans. Enroll in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider investing in individual retirement accounts. All provide tax-advantaged ways to save for retirement.
- ❍ Reconsider your views about retirement. Instead of a time of total leisure, consider working at a less-stressful job, starting your own business, or turning hobbies into paying jobs.

Please call if you'd like to discuss these issues in more detail. ❍❍❍

Time — Friend or Foe?

Here's when time is your foe: when you have only a couple of years left to work and don't have enough accumulated to retire. And here's when time is on your side: you start saving in your twenties, save every month, and keep saving until you retire. That's when you're putting the power of compounding to work for you.

The sooner you start saving, the less you'll have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say instead, you put off saving until you are 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month until age 65 to save about $185,000. At least that would be less painful than if you waited until you were 55. Then to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example above, why not go for 10%? But there are two problems with that strategy. The first is that investments don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. That's fine when the big returns come in; but in the long run, big returns in some years are usually paid for with big losses in others.

Not everyone realizes that time spent not saving can have a significant cost, and there are only so many ways to make up for it. The sooner you start putting more money aside, the better. ❍❍❍

Asset Allocation

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reduces the risk of receiving a lower return than expected, especially with investments that can fluctuate significantly over the short term.

❍ **Investment preferences** — With such a wide variety of investments to choose from, you should understand the basics of each to decide which are appropriate for you.

In general, you should consider a more conservative allocation if you are older, have short-term needs for your funds, have low earnings, or are uncomfortable with investing. A more aggressive allocation may be appropriate if you have high earnings, are younger, do not need your funds for many years, or are an experienced investor.

2. Determine your portfolio's current allocation. You should consider all your investments, including taxable accounts, individual retirement accounts, and retirement plans at work.

3. Determine how much variation you are willing to tolerate in your asset allocation. It's unlikely that your actual asset allocation will equal your desired asset allocation, due to varying market values and rates of return. Since it is difficult to maintain precise asset allocation percentages, decide how much variation you will tolerate. For example, you may monitor your portfolio more closely if an asset class varies by 5% of your desired allocation and rebalance when it varies by 10%.

4. Decide how to move your portfolio closer to your desired asset allocation. If you have not reassessed your asset allocation for awhile, you may find that significant changes are needed to get your allocation back in line. However, you may not want to make drastic changes all at once. Instead, you may want to take a more gradual approach to shifting your asset allocation. For instance, you can make new investments in assets that are underweighted in your portfolio. Periodic interest, dividends, or capital gains distributions can be redirected to other asset classes rather than reinvested in the same asset. Any withdrawals can come from overweighted asset classes.

Please call if you'd like help evaluating your asset allocation. ❍❍❍

Should You Defer Income Taxes?

Should you pay income taxes now so you can withdraw funds after retirement tax free? Or are you better off delaying income taxes until after retirement? This is a basic decision when choosing between a traditional deductible individual retirement account (IRA) or a Roth IRA or between a 401(k) plan or a Roth 401(k) plan. With the Roth options, you are paying taxes now so you can take qualified distributions income-tax free. With the traditional IRA and 401(k) plan, you are delaying taxes until distributions are taken.

The standard advice is to consider whether your tax bracket will be higher or lower in retirement. If you are likely to be in a higher tax bracket, you'll usually benefit from the Roth options because you will be paying taxes at a lower rate now. If you're likely to be in a lower tax bracket, you may benefit more from a traditional IRA and 401(k) plan, because you'll pay taxes at a lower rate after retirement.

Most people naturally assume their tax rate will be lower in retirement since their income will typically be lower. That assumes income tax rates will stay constant over that time period, even though they are at historically low levels. No one knows how those rates will be adjusted by Congress over the years. However, many believe income tax rates have nowhere to go but up.

Thus, it may be prudent to use tax diversification for your portfolio. This strategy attempts to protect your portfolio against tax-rate fluctuations. It is a concept similar to asset allocation, in which you protect your portfolio against price fluctuations. With tax diversification, you invest in a number of investment vehicles with different tax ramifications. For instance, you might invest in a Roth IRA, from which qualified distributions can be taken with no tax consequences; a 401(k) plan, saving you taxes now and paying ordinary income taxes on qualified distributions; and taxable accounts, in which capital gains taxes must be paid on sales of appreciated investments. In retirement, you can then monitor your tax situation and withdraw money from assets that make the most sense during any particular year.

Please call if you would like to discuss this in more detail. ❍❍❍

Financial Data

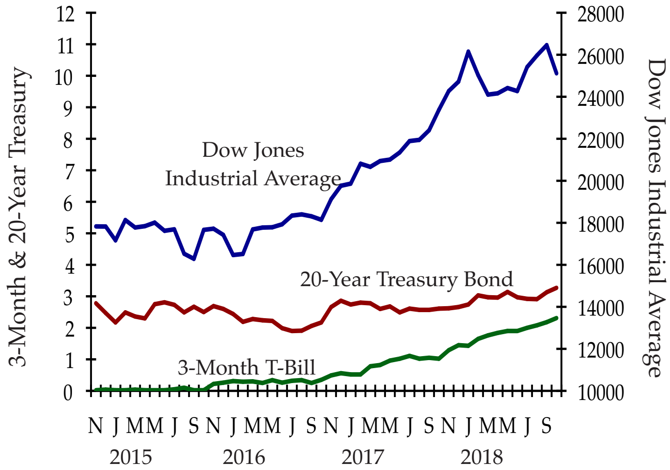
Indicator	Month-end Aug-18	Month-end Sep-18	Month-end Oct-18	Dec-17	Oct-17
Prime rate	5.00	5.25	5.25	4.50	4.25
Money market rate	0.45	0.47	0.43	0.33	0.32
3-month T-bill yield	2.08	2.18	2.31	1.45	1.02
20-year T-bond yield	2.91	3.13	3.27	2.66	2.61
Dow Jones Corp.	3.84	4.14	4.36	3.13	3.08
30-year fixed mortgage	4.18	4.74	4.45	3.51	3.55
GDP (adj. annual rate)#	+2.20	+4.20	+3.50	+2.90	+3.20

Indicator	Month-end Aug-18	Month-end Sep-18	Month-end Oct-18	% Change YTD	% Change 12 Mon.
Dow Jones Industrials	25964.82	26458.31	25115.76	1.6%	7.4%
Standard & Poor's 500	2901.52	2913.98	2711.74	1.4%	5.3%
Nasdaq Composite	8109.54	8046.35	7305.90	5.8%	8.6%
Gold	1202.45	1187.25	1214.95	-6.3%	-4.3%
Consumer price index@	252.00	252.15	252.44	2.3%	2.3%
Unemployment rate@	3.90	3.90	3.70	-9.8%	-11.9%
Index of leading ind.@	110.80	111.20	111.80	5.1%	6.2%

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

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

November 2014 to October 2018



Past performance is not a guarantee of future results.

U.S. Stock Market — Positive Growth with Positive Policies

As October turned the corner this year, the U.S. stock market has finally begun to accept the reality that interest rates will be rising to levels that relate to all the other investment instruments in the world — bonds, real estate, gold, and currencies. In my opinion, the move to raise interest rates is about three years overdue.

This means that options for allocations of investments will broaden. In the U.S., a majority of growth areas in the country have recreated real estate bubbles. In our backyard, Colorado, this is clearly obvious. Not bubbles that crash due to overleveraging, but due to shortages in housing that made investing by those with cash and good credit a no-brainer. This is creating a burden on millennials that will soon be wanting to invest and grow their families. Rising interest rates should gradually reduce the rate of increase in real estate prices; and as construction catches up to demand, rental rates should stabilize.

The U.S. stock market is being driven by the most significant corporate tax reform in the history of the country. This has reinvigorated growth in hiring and domiciling businesses to remain in the U.S., not relocating to Ireland or the Bahamas to escape ridiculous tax rates. Given time, this policy should also encourage companies located in other countries with high tax rates to relocate here. Do not underestimate the importance of what has taken place with these policies. Under these policies, the U.S. has the opportunity to leapfrog ahead in world domination in many business sectors as we compete with the socialist/communist doctrines of Russia, China, and a large section of Europe.

We live in a world of wealth and opportunity unlike anywhere in the world; but we love to be overly critical, especially in the press of our daily lives. Instead of worrying about when and how much the stock market will fall, we should be considering how long it takes for the Dow to reach 50,000 or 100,000. At least that should be the macro view.

So where should you be invested and why? The international growth markets have taken a beating. The Chinese stock market is down about 30% this year, Europe continues to drag, but the best-performing growth market in the world is India, projected to grow about 7.3% GDP this year. International opportunities are at very attractive valuations for individual companies or sector specific recoveries.

The FANG stock valuations are too expensive and have been the key driver for index fund performance in the U.S., but many sectors of the U.S. market are cheap. The biotechs, pharmas, other medicals, select oil and gas segments, and industrials that have been discounted while the tariff negotiations play out are at nice discounts to their growth rates. The recent market sell-off is significant as it redistributes allocations from a few significant growth stocks to a broader investment base. Don't be surprised if the market falls lower before setting up for a year-end rally.

For the time being, the long-term growth scenario is intact, and there are many areas of the U.S. and international markets to be invested in at reasonable values. If there is a substantial change in the makeup and direction of Congress, the types of investments and companies owned would require repositioning.

Thank you for your trust and confidence; I look forward to speaking with you again soon!