



Capital Asset Management Inc.

Helping People Make Smart Decisions About Money

Earnings Season: What Investors Can Take Away from Corporate Reports



Publicly traded companies are required to report their financial performance to regulators and shareholders on a quarterly basis. Earnings season is the often-turbulent period when most companies

disclose their successes and failures.

U.S. companies included in the S&P 500 index suffered year-over-year earnings declines in the first two quarters of 2019.¹ Rising wages and higher material costs (partially due to tariffs imposed on traded goods) had started to cut into profit margins.²

Earnings reports are closely watched because they reveal a corporation's bottom line. However, they generally reflect past performance and may have little to do with future results.

Performance lingo

A quarterly report includes unaudited financial statements, a discussion of the business conditions that affected financial results, and some guidance about how the company expects to perform in the following quarters. Financial statements reveal the quarter's profit or net income, which must be calculated according to generally accepted accounting principles (GAAP). This involves subtracting operating expenses (including depreciation, taxes, and other expenses) from net income.

Earnings per share (EPS) represents the portion of total profit that applies to each outstanding share of company stock. EPS is often the figure that makes headlines, because the financial media tend to focus on whether companies meet, beat, or fall short of the consensus estimate of Wall Street analysts. A company can beat the market by losing less money than expected, or can log billions in profits and still disappoint investors who were counting on more.

An earnings surprise — whether EPS comes in above or below expectations — can have an immediate effect on a company's stock price.

Shaping perception

In addition to filing regulatory paperwork, many companies announce their results through press releases, conference calls, and/or webinars so they can influence how the information is judged by analysts, financial media, and investors.

Pro-forma (or adjusted) earnings may exclude nonrecurring expenses such as restructuring costs, interest payments, taxes, and other unique events. Although the Securities and Exchange Commission has rules governing pro-forma financial statements, companies have leeway to highlight the positive and minimize the negative. There may be a vast difference between pro-forma earnings and those calculated according to GAAP.

Many companies also take steps to manage expectations. Issuing profit warnings or positive revisions to previous forecasts may prompt analysts to adjust their estimates accordingly. Companies may also be able to time certain business moves to help meet quarterly earnings targets.

The media hype surrounding an earnings surprise can sometimes draw attention away from important details that may be revealed in a company's quarterly report. Factors such as sales growth, research and development, new products, consumer trends, government policies, and global economic conditions can all affect a company's longer-term prospects.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index.

¹ FactSet, August 9, 2019

² Reuters, April 9, 2019

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Five Times in Your Life When You Might Need Help with Your Finances

Balancing 401(k) and HSA Contributions

What health services aren't covered by Medicare?

How much will health care cost?





The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Taxable distributions from retirement plans and IRAs prior to age 59½ may be subject to a 10% penalty tax unless an exception applies.

Disability premiums are based on your age, gender, occupation, and the amount of potential lost income you are trying to protect, as well as the specifics of the policy and what additional benefits are added.

Five Times in Your Life When You Might Need Help with Your Finances

As you move through different stages of life, you will face new and unique financial situations. Did you just get engaged? Perhaps you are wondering how you and your partner are going to manage your money together. Do you have children? Maybe you are looking for ways to pay for their college education.

When you navigate through these various life events, you might seek professional guidance to help you make sound financial choices.

1. Getting married

Getting married is an exciting time in one's life, but it also brings about many challenges. One challenge that you and your spouse will face is how to merge your finances. Careful planning and communication are important, since the financial decisions you make now can have a lasting impact on your future.

You'll want to discuss your financial goals and determine which are most important to both of you. You should also prepare a budget to make sure you are spending less than you earn. Other issues to consider as a couple include combining financial accounts, integrating insurance coverage, and increasing retirement plan contributions.

2. Buying a home

Buying a home can be stressful, especially for first-time homebuyers. Since most people finance their home purchases, buying a house usually means getting a mortgage. As a result, you'll need to determine how large a mortgage you can afford by taking into account your gross monthly income, housing expenses, and long-term debt.

And if you haven't already done so, you'll need to save for a down payment. Traditionally, lenders have required a 20% down payment on the purchase of a home, however many lenders now offer loans with lower down payments.

3. Starting a family

Starting a family is an important — and expensive — commitment. As your family grows, you will likely need to reassess and make changes to your budget. Many of your living expenses will increase (e.g., grocery, health-care, and housing costs). In addition, you'll need to account for new expenses such as child care and building a college fund.

Having a family also means you should review your insurance coverage needs. Life insurance can help protect your family from financial uncertainty if you die, while disability insurance will help replace your income if you become injured or sick.

4. Paying for college

Paying for college is a major financial undertaking and usually involves a combination of strategies to help cover costs — savings, financial aid, income during the college years, and potentially other creative cost-cutting measures. Hopefully, you've been saving money on a regular basis to amass a healthy sum when your child is ready for college. But as college costs continue to rise each year, what you've saved may not be enough.

For this reason, many families supplement their savings at college time with federal or college financial aid. Federal aid can include student and parent loans (need-based and non-need-based), grants and work-study (both need-based), while college aid consists primarily of grants and scholarships (need-based and merit-based). In fact, college grants and scholarships can make up a significant portion of the college funding puzzle, so exploring the availability of college aid is probably the single biggest thing you can do after saving regularly to optimize your bottom line. In addition to financial aid, you might take out a private college loan or borrow against your home equity. Or you might pay college expenses using your current income or other savings or investments.

5. Saving for retirement

You know that saving for retirement is important. However, sometimes it's easy to delay saving while you're still young and retirement seems too far off in the future. Proper planning is important, and the sooner you get started, the easier it will be to meet your retirement income needs. Depending on your desired retirement lifestyle, experts suggest that you may need 80% to 100% of your pre-retirement income to maintain your standard of living. However, this is only a general guideline. To determine your specific needs, you'll need to estimate all your potential sources of retirement income and retirement expenses, taking taxes and inflation into account.

Once you've estimated how much money you'll need for retirement, your next goal is to save that amount. Employer-sponsored retirement plans like 401(k)s and 403(b)s are powerful savings tools because you can make pre-tax contributions (reducing your current taxable income), and any investment earnings grow tax deferred until withdrawn, when they are taxed as ordinary income. You may be able to enhance your savings even more if your employer matches contributions. IRAs also offer tax-deferred growth of earnings.

Balancing 401(k) and HSA Contributions



For more information on qualified medical expenses, review IRS Publication 502. For help with your specific situation, consult a tax professional.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

¹ Survey of Adults with Employer-Sponsored Insurance, Kaiser Family Foundation/LA Times, May 2, 2019

² 2019 HSA Survey, Plan Sponsor Council of America, June 4, 2019

If you have the opportunity to contribute to both a 401(k) and a health savings account (HSA), you may wonder how best to take advantage of them. Determining how much to contribute to each type of plan will require some careful thought and strategic planning.

Understand the tax benefits

A traditional, non-Roth 401(k) allows you to save for retirement on a pre-tax basis, which means the money is deducted from your paycheck before taxes are assessed. The account then grows on a tax-deferred basis; you don't pay taxes on any contributions or earnings until you withdraw the money. Withdrawals are subject to ordinary income tax and a possible 10% penalty tax if made before you reach age 59½, unless an exception applies.

You can open and contribute to an HSA only if you are enrolled in a qualifying high-deductible health plan (HDHP), are not covered by someone else's plan, and cannot be claimed as a dependent by someone else. Although HDHP premiums are generally lower than other types of health insurance, the out-of-pocket costs could be much higher (until you reach the deductible). That's where HSAs come in. Similar to 401(k)s, they allow you to set aside money on a pre-tax or tax-deductible basis, and the money grows tax deferred.

However, HSAs offer an extra tax advantage: Funds used to pay qualified medical expenses can be withdrawn from the account *tax-free*. And you don't have to wait until a certain age to do so. That may be one reason why 68% of individuals in one survey viewed HSAs as a way to pay current medical bills rather than save for the future.¹ However, a closer look at HSAs reveals why they can add a new dimension to your retirement strategy.

HSAs: A deeper dive

Following are some of the reasons an HSA could be a good long-term, asset-building tool.

- With an HSA, there is no "use it or lose it" requirement, as there is with a flexible spending account (FSA); you can carry an HSA balance from one year to the next, allowing it to potentially grow over time.
- HSAs are portable. If you leave your employer for any reason, you can roll the money into another HSA.
- You typically have the opportunity to invest your HSA money in a variety of asset classes, similar to a 401(k) plan. (According to the Plan Sponsor Council of America, most HSAs require you to have at least \$1,000 in

the account before you can invest beyond cash alternatives.²)

- HSAs don't impose required minimum distributions at age 70½, unlike 401(k)s.
- You can use your HSA money to pay for certain health insurance costs in retirement, including Medicare premiums and copays, as well as long-term care insurance premiums (subject to certain limits).
- Prior to age 65, withdrawals used for nonqualified expenses are subject to income tax and a 20% penalty tax; however, after age 65, money used for nonqualified expenses will not be subject to the penalty [i.e., HSA dollars used for nonqualified expenses after age 65 receive the same tax treatment as traditional 401(k) withdrawals].

The bottom line is that if you don't need all of your HSA money to cover immediate health-care costs, it may provide an ideal opportunity to build a separate nest egg for your retirement health-care expenses. (It might be wise to keep any money needed to cover immediate or short-term medical expenses in relatively conservative investments.)

Additional points to consider

If you have the option to save in both a 401(k) and an HSA, ideally you would set aside the maximum amount in each type of account: in 2019, the limits are \$19,000 (plus an additional \$6,000 if you're 50 or older) in your 401(k) plan; \$3,500 for individual coverage (or \$7,000 for families, plus an additional \$1,000 if you're 55 or older) in your HSA. Realistically, however, those amounts may be unattainable. So here are some important points to consider.

- 1) Estimate how much you spend out of pocket on your family's health care annually and set aside at least that much in your HSA.
- 2) If either your 401(k) or HSA — or both — offers an employer match, try to contribute at least enough to take full advantage of it. Not doing so is turning down free money.
- 3) Understand all HSA rules, both now and down the road. For example, you'll need to save receipts for all your medical expenses. And once you're enrolled in Medicare, you can no longer contribute to an HSA. Nor can you pay Medigap premiums with HSA dollars.
- 4) Compare investment options in both types of accounts. Examine the objectives, risk/return potential, and fees and expenses of all options before determining amounts to invest.
- 5) If your 401(k) offers a Roth account, you may want to factor its pros and cons into the equation as well.

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What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

Deductibles, copays, and coinsurance.

Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

Prescription drugs. For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

Dental and vision care. Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

Hearing care and hearing aids. Some Medicare Advantage plans may cover hearing aids and exams.

Medical care outside the United States.

Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

Long-term care. Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC insurance policy. It should be noted that LTC insurance carriers have the discretion to raise their rates and remove their products from the marketplace.

How much will health care cost?

Retirement health-care costs will vary depending on your health and longevity, but it may help to have a guideline. These are the estimated savings required for an individual or couple who turned 65 in 2019 to have a 90% chance of meeting expenses for Medicare Part B health insurance, Part D prescription drug coverage, Medigap Plan F, and out-of-pocket drug costs, assuming median prescription drug expenses.* These estimates do not include services not covered by Medicare or Medigap.



*Medigap Plan F is used for these estimates because it is the most comprehensive coverage available and simplifies the calculation. However, this plan may not be available for new beneficiaries after January 1, 2020. Current enrollees may keep Plan F, and most other plans will remain available for new enrollees.

Source: Employee Benefit Research Institute, 2019



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The Office Buzz

October 2019,

Do you listen to PODCAST? You can find CAM's new podcast on our website. Go to www.capitalassetmanagement.com and look at the menu for Podcast. Our first attempt at this was a 6-part series on How To Retire. Keep listening because we get better the further into the series you go. Just go to the site and click on the link and you can listen on whatever device you happen to be using. If you prefer or have difficulty, just call the office and ask for the Podcast links to be emailed to you. Each session has an accompanying workbook that you can download. While our presentation may be very "first timmer-ish", the material content is what we have been asked for over and over. Please go take a listen.

Have you gotten an email or phone call from Hudson at our office and not replied yet? Please don't make him work any harder than he must. We genuinely have legal obligations to speak with you occasionally. Please help us do our job by being easy for us to get ahold of.

eQuipt is our new portal for accessing your accounts online. Currently, it has just your Pershing accounts feeding into it. We expect all types of accounts to eventually feed into it. We even expect it to become a portal where you can digitally sign forms. You have requested a better option for viewing your accounts and this is it. We need to help you sign up for this service. If you are in the office for a review, we will sit with you at a computer and walk you through it. We can also do this remotely. You just need to be able to be on your computer and telephone at the same time. To arrange a remote enrollment, please call Sandra Owens at our office.

We have a new presentation that we are giving for accounting office's clients all over the OKC area entitled, How Tax Planning Through Four Stages of Retirement. If that strikes you as something you would like to hear, please let us know and we will make sure you get invited to one in the near future.

Between now and the end of the year, there will be a series of dinners that you may be invited to from our office. Whenever you get mail from us, take a good look at it as you may have an invitation in hand. Be sure to come out for dinner and hear our update topic for your group.

Doug Oliver



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Doug's World

October Greetings,

Even after all these years, I'm still surprised by all of the people who read what's going on in my life through these newsletters. It is a pleasure to share with you the successes and failures of the Oliver family. For you regular readers, allow me to update you on a few past items.

It still isn't autumn in central Oklahoma.

The TV is working, but the music is broken now. The solution appears elusive.

Karen and Kip are still looking for that routine, but working on it daily.

Beau loves all day pre-K. It wears the kid out sometimes. A couple of times, he has fallen asleep on the way home and sleeps until the next morning.

It was an absolutely wonderful Labor Day weekend with all the kids, spouses and grandchildren in Galveston. In fact, it was a couple of my most favorite days ever.

September was generally a quiet month. I think I slept in my own bed every night. Unfortunately, though, not as long as I would like. I have been getting up early and walking 6000 or 7000 steps before showering and heading in to work. I had my annual physical in August. I heard the doctor say don't eat anything fatty. I responded by asking if he meant like burgers or bacon? His reply was, "No Fatty, I said don't eat anything." Seriously, he did have slightly more tact than that, but only a little. I received the message loud and clear. So....I guess I need to lose weight. Walking is my best bet because I surely don't want to quit eating.

I was going to fly down and check on my place in Galveston this past weekend, but a tropical storm blew up out of nowhere and deluded the place with rain. Thank goodness for forecast. It was a pretty nice weekend in OKC so it was nice to stay home.

October is looking like a busy month. Justin and I have some business travel near the end of the month. We also have about 10 speaking engagements during the month. I'm not really complaining about working hard, but it does cut into my "sitting on the patio in the autumn weather" time. I don't want Oklahoma's very short Autumn to come while I can't enjoy it. I was raised by parents and grandparents who were front porch sitters. When I say I love sitting on the patio, its just my way of carrying on an old family tradition.

DOUG OLIVER



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Justin's World

I think I have a new little entrepreneur.

A couple of weeks ago, a little girl down the street started selling snowcones. She was surprisingly successful at drawing in business from the neighbors. So, after seeing her success, my 8yr old daughter Tiana, and three of her neighborhood friends pooled their money to purchase their own snowcone machine. They didn't have quite enough to purchase a quality machine, so my wife may have injected a little cash into the business.

The girls had so much fun planning for the new business. First, they came up with a name, "Colorado Mountain Sno". Then they made a big poster to hang out front of the stand. They then made flyers and went door to door distributing flyers informing the neighbors that a snowcone stand was coming soon.

The business has gone pretty well. They are open almost every evening and on weekends. They have a blast hunting people down and making the snowcones. After a week, they have earned their money back from the initial startup and are now in profit mode.

It has been really fun watching them organize and execute.

And... They may enjoy sampling the product too!

Justin J. Klein, CFP®



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Stephanie's World

October 2019,

Ahhhhhhh. It's finally the season of all things pumpkin spice. Are you a fall lover like me?

As the saying goes, "You always want what you can't have" – well, in Oklahoma, that thing is fall weather. It goes from 92 degrees to 42 degrees in the blink of an eye. Seriously, it seems like we have about 3 ½ (cherished) days of true fall weather. I'm patiently waiting and fervently praying for those lovely days ahead.

In other news, if you've visited the office lately you may have noticed some changes. One of the biggest literally hits you when you walk in the front door. Sandra's desk is now out front in the lobby, Jan and I have traded offices, Justin rearranged his, and Doug's office has all new furniture. Wow, CAM got a face lift!

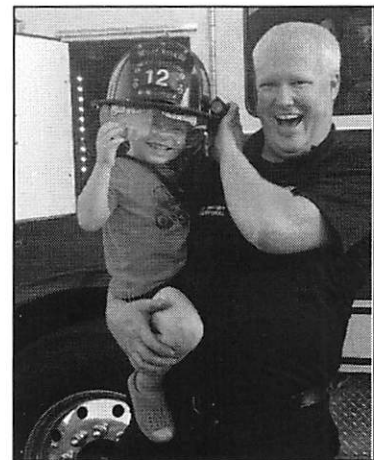
Somehow I've been dubbed the resident interior decorator. It's been fun to rearrange and reimagine our spaces. I tagged along with Doug while we shopped at all the local furniture stores. He was quick to make decisions...and I was quick to question them. In the end, I think we ended up with some nice and functional pieces that look great in the cabin. And I'll tell ya, it sure is a lot more fun to shop with someone else's money.

At home, life is busy but we've mostly found our groove with school and activities. We had a fun evening with the boys a couple of weeks ago. The crew at our local fire station (#2 in OKC) came by to meet the neighborhood during Neighbors Night Out. The boys took laps around the block in the fire engine and got a personal demo of all the rescue equipment. Callahan asked if he could use the Jaws Of Life on my car to see first hand how it can pry open doors. Ha!

All kidding aside, I was truly in awe at how wonderful the crew treated my boys. I was reminded that our first responders are such special people with servant hearts. I hope to never need them, but I know if we ever do, we'll be in excellent hands.

My sincere gratitude to each of you who selflessly run towards danger to save others. Callahan said it perfectly, "Wow Mom, a real life hero!"

Stephanie Woods



Sully wearing Corporal Brown's helmet.



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Richard's World

J.C. Penney, and How I Became a Financial Advisor, Part III

Fidelity Mutual was one of the first life insurers companies to be involved in financial planning. It owned two mutual funds and insisted that all agents have securities licenses. Fidelity wanted us to help clients with stocks, bonds and mutual funds. I joined the company in 1968, 51 years ago, and was securities-licensed by 1969, 50 years ago. Fidelity Mutual training was excellent.

Bob Weidman, a friend forever, my Equitable district manager, eventually returned from France and phoned me first thing. "Where are you?" he asked.

"I guess you didn't hear, Bob," I answered, "I was terminated. I got a letter saying so from Coy Eklund."

"Oh, crap," Bob exclaimed. That letter was designed to scare you, not terminate you."

"Well, it worked," was my response. But, even though I left Equitable after something like four months, Bob and I stayed friends.

In 1970, Bob was working at a building on 7th Avenue and I met him there for one of our periodic lunches. I went up to his office in an elevator, collected him and, after we rode another elevator down and exited and were on the street, he asked: "Did you see that older gentlemen with us on the elevator?"

"Sure."

"That was J.C. Penney." It turned out that J.C. Penney, was then (around 1970) the honorary chairman of Penney's Department Stores, and that his office was in the same building as Bob's.

(Part IV comes next month.)