LILANI WEALTH MANAGEMENT

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FINANCIAL TEA TIME

Your freshly brewed cup of financial updates

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Greetings!

With about 10,000 baby boomers entering retirement every day, there are an estimated 24 million boomers aged 65 or older. And the oldest boomers (born in 1946) are turning 70 ½, the age when required distributions from retirement and other qualified accounts usually need to begin. Therefore, this month, it seemed appropriate and relevant to discuss the most common, and yet the most overlooked fundamentals of planning for the modern-day retirement.

Enjoy and please call us if you have any questions. We'd love to hear from you!

Economic and Market Review

Healthcare reform. Uh... check?

The next item on President Trump's economic policy agenda, tax reform, may be a little more agreeable, if not easy, to tackle than the healthcare reform. Both parties, Republicans and Democrats, appreciate the need for corporate tax reform. The stick in the mud, however, will be addressing the much-touted but combative, personal tax reform. It will be far more contentious as there will be push-back from those in higher income brackets, paying lower taxes.

Historically, tax rate cuts have been enormously successful ever since the Federal income tax was enacted in 1913. Tax cuts under U.S. presidents from Warren Harding, Calvin Coolidge, John F. Kennedy to Ronald Reagan, all resulted in increased government revenues for the decade, and both the stock market and the economy prospered.

In the first quarter of the year, US stocks continued their climb. International and emerging markets did better, assisted and elevated by the declining dollar. All this despite a series of negative news, including tough trade talks with China and FBI investigations, to name a couple.

This proves true the theory that political uncertainty does not always translate to market uncertainty. The stock market cares more about economics and fundamentals, than politics. Speaking of economics, leading economic indicators remain positive, volatility is relatively low, unemployment is at a low 4.5%, investor sentiment continues to remain high, corporate earnings continue to accelerate, and manufacturing is broadening. "Short of a true political crisis, the primary risk to the market (at the moment) may be that it gives back some or all of its post-election run-up if the resolution of corporate tax reform disappoints investors", says Assetmark's CIO, Jerry Chafkin.

"Investors can take comfort that market sentiment remains high, market volatility is low and leading economic indicators are still strong. While in the near-term the stock market may pullback as expectations for Trump's economic policy agenda are adjusted, but the opportunity for further appreciation remains in the intermediate- and longer-term", adds Chafkin.

In the meantime, the Federal Reserve is positioned to raise interest rates some more this year. Another item on their agenda, perhaps as early as this year, is to shrink the $4 trillion-plus balance sheet, resulting from the monetary easing policies employed post-financial crisis. The by-products of this liquidity injection, while staving off another great Depression, are inflated asset prices, leveraged stock buybacks and escalating high-end real estate prices.

Looking forward, it looks like we're in for a busy rest of the year, and a busier summer than usual. What does that mean for portfolios? Broad-based portfolio diversification across assets and in various key geographic locations, would be an appropriate and prudent approach at this time. In other words, do what we always do: stay focused on individual goals and objectives.

When Good Markets Go Bad

Retirement planning is a tricky process, one that requires careful planning and patience. But even if you have a retirement plan with a clear set of financial and lifestyle goals, it's important to be aware of several common missteps that many fall victim to.

1 - Underestimating the costs of health care

As health care costs continue to rise dramatically, employers are shifting more weight of the costs onto their employees. More companies are beginning to drop retired workers from their health plans, and millions of Americans have no form of coverage at all.

Consequently, a common mistake made in retirement is a lack of preparation for the financial impact of health expenditures. One of the most overlooked and most expensive costs is long-term health care, which can be devastating to your financial goals. Long-term care insurance can provide some safeguards, and purchasing it early on can help lower its costs.

2 - Misjudging how long you or your spouse will live

Many underestimate the amount of assets that could be needed to last throughout their lifetimes. As medical technology improves and life expectancy increases, the odds are good that you or your spouse will live past age 90. So it's vital that you are prepared to live longer.

3 - Presuming you'll work a long time

Your generation is famous for working long, hard hours to get ahead, and most baby boomers believe that they'll be working long into retirement. But that assumption can be one of the biggest retirement mistakes you make.

Census Bureau statistics indicate the average age of retirement in America is now 62. According to the 2016 Employee Benefit Research Institute Retirement Confidence Survey, 55 percent of retirees who had to leave the workforce earlier than planned did so because of poor health or disability. Thirty-three percent retired early because they could afford to do so, and 25 percent of retirees cited leaving to do something else. Even if you want to work as long as you can, it may not always be possible, so it's vital that you plan and save for such a scenario.

Working with a financial professional and having the proper planning in place are essential keys to a successful retirement. It's also important to keep an eye on health care costs and stay informed on issues that will affect your retirement. By focusing on the long term and being aware of common pitfalls, you can be prepared to make your retirement the best years of your life.
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Know someone who needs help getting their financial house in order? Let us help. Call us at (916) 782-7752 (Sacramento) or (408) 513-7417 (Bay area)

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