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FINANCIAL PARTNERS

*Using our* **KNOWLEDGE, SKILLS** *and* **RESOURCES** *to help people increase their capacity to* **LIVE** *and to* **GIVE**

**JANUARY 2019**

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## Maximizing Your Retirement Income Is Both Art and Science

As many of you know, Wayne and I love to hike. Second only to cycling, hiking is our favorite way to spend our time together. I was at a conference a few years back and one of the speakers said 80% of all climber fatalities on Mount Everest have happened on the way down. I have not verified this, but it makes intuitive sense. As hikers we spend a lot of time figuring out how to get up the mountain, but we don't always spend enough time planning our descent. Retirement planning is a lot like this. Most people spend literally a life time concentrating on (and worrying about) how to accumulate enough retirement money (the climb up), but they don't have a plan to maximize their retirement income (the descent). If the speaker was right about Mount Everest, once we get to retirement, then the work really begins.

Consider The Alfreds. They retire in six months at the ages of 67 and 63. They must decide how much income they need to live on; how to turn their investments into a stream of income; and when to start taking Social Security. Should they first draw from their liquid assets or their retirement assets or their tax free Roth? They must also decide on how they will handle long term health insurance and medical needs. They have many options. Not all of their options will treat them the same for income taxes. Almost anything they do will get them through the next ten years, but, will they still be able to prosper at 90 or 100?

Consider The Cates, ages 68 and 67. They have accumulated enough to live at their standard of living past age 100.

Unfortunately, their required distributions from their qualified retirement plans will push them into a higher tax bracket. If they convert some from their retirement plans to Roth IRAs, they reduce their long term required distributions and the tax liability on their Social Security payments. They may want to maximize their inheritance by repositioning their portfolio to tax free accounts for their kids and grandkids or their favorite charity.

If all either couple wanted to do was spend down their savings and let the chips fall where they may, then neither of them really had to do any income planning per se. Most of us didn't save all of our lives just to turn around and give it all to a nursing home or to the IRS, though. With a little bit of planning you can probably reduce your income taxes and increase your legacy.

- Jude McDaniel CLU, ChFC

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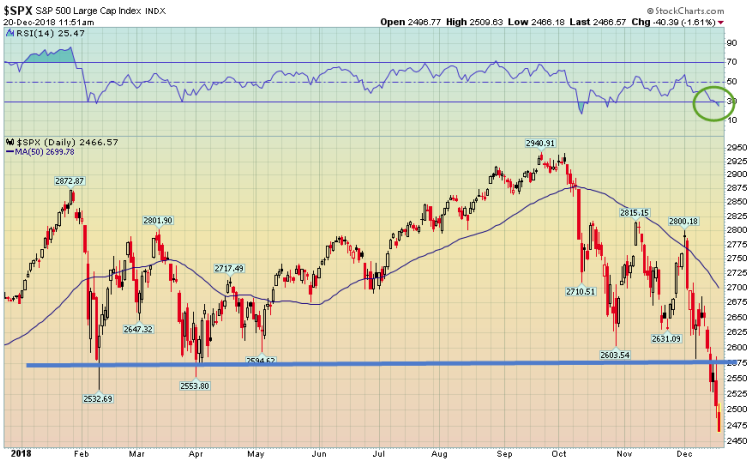
# Market Commentary: Risk On or Risk Off?

*Written December 20, 2018*

Okay readers, time to get down in the trenches with me. We're going to be wading through some weeds. Stick with me; it'll be worth it in the end. And you'll feel so much smarter.

First of all, the Fed increased rates by 0.25% yesterday and alluded to two more hikes in 2019. Of course, Mr. Market didn't like that much, so we've seen major indices break their **support** levels (the blue line on the graph below). But the market is also **oversold** at this point (meaning that the price has fallen to a level at which there is a high probability of a short-term rally).



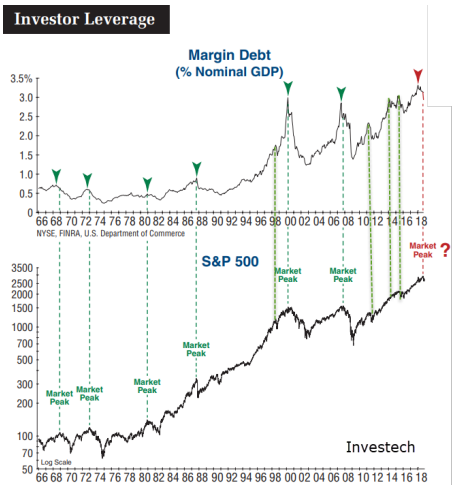

Looking at **support/resistance** lines and **overbought/oversold** indicators is something called *technical analysis*. It's looking at the price movement of the markets to drive decisions about how offensive or defensive to be and when. It's not perfect (nothing is) and it's not a good idea to use in a vacuum.

That's why we also use *fundamental analysis*, which is the art of interpreting economic data and figures to determine what the market prices "should" be. It's good for the long-term view because history has shown that markets gravitate toward their fair values over time. The caveat is that it might take a few years. There aren't any hard and fast rules on how long a stock (or a market) can deviate from its fair value.

I've written a lot in past commentaries about the fundamental side of the coin. Economically, we're in good shape. GDP is above 3%; earnings growth hit record highs last quarter; unemployment is extremely low; and despite the rate hikes, interest rates are still historically low. But a particular trend has emerged in the last two months that is concerning and adds to the market's volatility.

Margin debt is how much investors leverage current stocks they own to buy more stocks. It hit a record high several months ago, which wasn't concerning in and of itself, but now it has started to decline. As stocks fall, investors have margin calls and are forced sellers of their stocks in a down market. It puts additional downside pressure on an already weak market.

Below is a graph from Investech that shows margin debt levels compared to the S&P 500. I've added additional lines to show that not every downturn in margin debt equates to a major market top. Margin debt declined in 2011 and 2015 – and the market didn't collapse.




On the technical front, rallies have been met with selling as investors are entering panic mode. In my opinion what is causing the panic are many what-ifs. I've written about those in past commentaries already. But as of December 17th, technical indicators are showing a short-term bottom but a change in overall trend to "down".

Here's what we've already done and our game plan moving forward for the accounts we manage:

In all but our most aggressive models, we purchased 10-20% of a defensive position that will help reduce downside risk. After our indicators show that the next rally is exhausted, we'll get more defensive. The amount depends upon a client's particular risk tolerance. We don't advocate for moving 100% to cash or making drastic moves all at once. We can point to 2011 and 2015 as examples of how that would have been a bad idea; the market can quickly change direction and never look back.

If the market makes an about-face and the technical indicators change the market trend to "up," then we'll gradually remove the defensive guardrails. But considering the change in risk on the technical side and the decline in margin debt, we're taking steps to mitigate more potential downside risk.

If you have any questions or want to know even more of the nitty-gritty details, feel free to email us. Rest assured that we're paying attention, reading the road signs, and taking action.

- Victoria Bogner, CFP®, CFA, AIF®

# Wrapping Up Our 2018 Christmas Party

Every year you help us throw one of the best Christmas parties in Lawrence!

We had such a good time. We debuted our new video; Jude provided caricatures; everyone enjoyed a wonderful dinner; and the photo booth captured some fantastic pictures. Speaking of the video, it's on our website. Just click "Our Story" to view it.

The best part of the evening was our challenge to guests to sing a carol for charity. An enormous thank you to those who stepped up and sang – you made it wonderful! Because of your talent (and bravery) we are making a combined $400 in donations to the following organizations:

- Insight Women's Center
- Visiting Nurses Association
- Just Food
- Kansas Audio-Reader

The fun continues into 2019 when we host *Quilters* at Theatre Lawrence. Details are on the back cover of this newsletter.

- Anna Keena

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Some IRAs have contribution limitations and tax consequences for early withdrawals. Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty. For complete details, consult your tax advisor or attorney. Converting from a traditional IRA to a Roth IRA is a taxable event. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earning, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

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# Save the Date!

## Please join us on Friday, March 8th for the Theatre Lawrence production of *Quilters*!

*Quilters* is a musical by Molly Newman and Barbara Damashek, telling a story of frontier women through their quilts. With music and dance, a woman and her six daughters share the beauty and terror, the joy, the harsh challenges and the rewards of pioneer life. Original quilts by Lawrence quilters will be used and displayed during the performance. Make sure you stay through the finale; you'll be glad you did.