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Financial Outlook

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Estate-Planning Tips for Baby Boomers

As the baby boomer generation gradually makes the transition from their working years to retirement, it's time for them to get serious about estate planning. But for a variety of reasons, many boomers have put off this essential task, putting them and their families at risk. These tips can help this generation get back on track with estate planning.

1. Know what your children expect — and what you plan to give them. By and large, boomers' parents were conservative savers. They came of age in the Great Depression, and that formative experience often led them to be cautious with their money. Many of them accumulated far more than they ever spent, and they passed that wealth on to their boomer children. But many baby boomers aren't taking the same approach to money. For one, the world has changed. Even boomers who've saved a lot may end up spending much of what they've accumulated, since retirements are likely to be longer and healthcare costs expensive. But there's also an attitude difference. Active boomers may be planning on spending much of their hard-earned money on themselves. They believe they've done a lot for their children already and don't feel the need to leave substantial assets to them. That's fine — it's your money, after all — but if you plan on spending down most of your assets, you may want to let your children know. It's one thing to not leave money to the next generation, but if they are blindsided by your decisions after your death, they

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Rebalance Your Portfolio

There is a relatively underused and simple technique to raise your long-term portfolio performance and reduce your risk at the same time. It's called rebalancing, and it's something every investor can and should do.

Let's start with the basics. First, to rebalance you need to have more than one investment in your portfolio (so you can hold investments in different asset classes, like stocks, bonds, and cash). Second, you need to determine the right mix of those investments for your objectives.

For example, an aggressive investor with a long time horizon might invest 80% of his/her portfolio in stocks, 15% in bonds, and 5% in cash. On the other hand, a conservative investor might hold 30% in stocks, 60% in bonds, and 10% in cash.

The opportunity for rebalancing arises when the market performance of your investments changes their value and, as a result, their weighting in your portfolio.

How Rebalancing Is Done

The purpose of rebalancing is to restore an investor's portfolio to the structure that fits his/her objectives. Here's how you do it: you sell off a portion of any asset class that has increased beyond its target percentage and reinvest the sale proceeds in more asset classes that have shrunk below their target percentage. The calculation is simple: multiply the new market value of your portfolio by your target mix percentages and compare them to the values in your account.

Aside from maintaining the level of investment risk that's right for you, rebalancing has two additional benefits. First, it forces you to lock in

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Estate Planning

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may end up feeling resentful.

2. Have a plan for the end of your life. Many, if not most, boomers are still leading busy lifestyles, and they plan to keep doing so for some time. Boomers who value staying fit and healthy may not really be thinking about what will happen to them when the inevitabilities of aging finally do catch up. But while taking steps to live a healthy lifestyle is important to enjoying a great retirement, boomers shouldn't stick their heads in the sand and assume they'll be healthy forever. Sickness and disability can happen, and it will be easier for you and your family to deal with if you have a plan. Not only should you think about long-term care and how you'll pay for it, you should also make sure you have end-of-life planning documents in place, like a healthcare power of attorney and a living will.

3. Make sure your estate plan is up to date. Many boomers have estate plans they created decades ago. The primary goal of those estate plans may have been to ensure that their children and surviving spouse were protected in the event of unexpected death. But as you get older, your estate-planning needs change. If your children are independent adults, providing for them is no longer as critical. Plus, if it's been two or three decades since you created your will, your life has likely changed in other ways, too. You may have grandchildren who you want to receive part of your estate or new property that should be incorporated into your will. Or your family composition might have changed — you may have been divorced or widowed, for example. You may even have received a health diagnosis that is affecting your estate planning goals. For all these reasons and more, boomers need to sit down and review their estate plans to make sure they are properly conveying all their wishes.

4. Decide if and how you want to leave a legacy. Successful boomers often want to find a way to leave a lasting impact on the world and support causes and organizations closest to their hearts. If you count yourself among those for whom leaving a legacy is important, now is the time to start thinking seriously about how you want to turn those legacy dreams into reality. If your goals are ambitious — like endowing a scholarship or starting a foundation or a charity — you should start planning now. The more lofty your goals, the more important it is you take clear, concrete steps to turn your dreams into reality — like meeting with the leaders of an organization you support and finding out how you can best help them. After all, you won't be able to do this after you are gone.

Not sure how to put these estate-planning tips into action? Please call if you'd like to discuss this topic in more detail. ❍❍❍

Your 401(k) Plan Has Hidden Gems

Tax-deferred contributions and employer matches make 401(k) plans a valuable retirement planning tool, but there are other features most people are unaware of that can make it even more valuable.

Investment Advice — Most people would readily admit that they don't have the knowledge or skills to manage their own investments, but they do not take advantage of the various advice options that may be available through their 401(k) plan. Almost 40% of plans offer online advice for investment recommendations, but only 6% of plan participants utilize these online advice tools. And while about 25% of plans offer managed account advice and 68% offer professional financial advisor services, only about 10% of participants use them.

Investment Customization — A wide range of investment options are available to provide participants with choices based on their investment risk tolerance. On average, 401(k) plans offered 18 different funds in 2016, yet half of plan participants contribute to only one fund.

Changing Investments — While investment selections can be changed in your 401(k) at any time, only 9% of plan participants actually traded within their plan in 2015. On a quarterly basis, you should review the investments in your 401(k) to determine if they are meeting your investment objectives.

Roth 401(k) Plans — In 2015, the Roth 401(k) plan was available in almost 60% of plans, but only 15% of participants saved with this option. The benefits of investing after-tax contributions in a Roth 401(k) plan is that contributions may be withdrawn tax free in retirement. While there are rules regarding how much you can invest in a Roth 401(k) plan, tax-free income in retirement is a great way to reduce your tax liability. Additionally, if you roll your Roth 401(k) funds into a Roth IRA, there are no required minimum distributions at age 70½, giving you more flexibility in managing your disbursements.

Catch-Up — About 97% of 401(k) plans offer the option to make catch-up contributions to those 50 and older, but only 16% of eligible participants take advantage of this option. The maximum annual contribution to a 401(k) plan in 2017 is $18,000, but the catch-up feature allows a participant to contribute an additional $6,000. If you haven't been making the maximum contribution and you're over 50, this is your opportunity to make the most out of your 401(k) plan with the time you have left. ❍❍❍

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Rebalance

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your gains, which many investors fail to do. Second, rebalancing can add as much as one-half percent or more to your long-term investment returns. That may not sound like much; but over 20 years, it could mean thousands of dollars more in your pocket.

How Often Should You Rebalance?

A good rule of thumb for rebalancing is once a year. But depending on market performance, it could be more or less often than that. The best advice is to check your portfolio several times a year and rebalance whenever there have been significant changes in the weighting of its constituent parts.

This is just an overview of rebalancing. It can apply not only to asset classes, but to sub-asset classes as well. For example, your asset allocation strategy may call for specific exposure to large- and small-cap stocks, or U.S. and foreign stocks; while your bond portfolio may include Treasuries, investment-grade corporate, and high-yield bonds, and changes in their weighting may suggest you rebalance among these, too. There's also the question of which particular stocks or bonds you sell or buy.

Finally, there's always the chance that changes in your portfolio may coincide with changes in your objectives — you may actually need to be taking more or less risk than in the past. Whether and when to rebalance is just one of many considerations that are important to maintaining your investment portfolio. Please call if you'd like to discuss this in more detail. ❍❍❍

Sufficient Funds for Your Entire Retirement

How can you ensure you'll have sufficient funds to last your entire retirement? So many of the variables used to calculate this amount seem uncertain. What is a reasonable rate of return for your investments over the long term? How long will you live, knowing life expectancies are increasing? How much can you count on from Social Security and pension plans? If you're concerned about running out of money during retirement, you need to be very conservative with your assumptions. Some tips to consider include:

❍ **Assume your retirement income needs to be at least 100% of your current income.** Most rules of thumb indicate you'll need between 70% and 100%, but figure on at least 100% to be safe. Nowadays, retirees want to travel, pursue hobbies, and live an active lifestyle, which generally means you'll need the higher end of these estimates.

❍ **Add a few years to your life expectancy.** You should probably plan on living until at least age 85 or 90. If your family has a history of longevity, add a few more years to these figures. While you may find it hard to believe you'll live that long, you don't want to reach age 75 or 80 and find out you've run out of money. At that point, you may not be able to return to work.

❍ **Reduce your estimates of Social Security benefits.** The Social Security Administration sends benefit statements detailing how much to expect in benefits. While Social Security is currently in sound financial condition, that is expected to change after all the baby boomers retire. To be safe, count on benefits that are somewhat less than the Social Security Administration is estimating, and don't plan on adjustments for inflation.

❍ **Cut back on living expenses now.** This has a two-fold impact on your retirement. First, it frees up money to set aside for retirement. Second, you get used to a lower standard of living, which should also reduce your expected lifestyle for retirement.

❍ **Reach retirement with no debt.** Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off all those debts by retirement and you'll significantly reduce your cost of living.

❍ **Forget about early retirement.** Saving enough to last from age 65 to age 85 or 90 is a difficult task. Trying to retire at age 55 or 60 is just not practical for most individuals, unless you're willing to significantly reduce your lifestyle. Working a few more years can go a long way in helping to fund your retirement. Those years are typically your highest-earning years, so hopefully you'll save significant sums during that period. Also, every year you work is one year you don't have to support yourself with your retirement savings.

❍ **Consider working during retirement.** Especially during the early years of retirement, you should consider working on at least a part-time basis. Even modest earnings can help significantly with retirement expenses.

❍ **Plan on taking conservative withdrawals from your retirement assets.** Don't plan on taking out more than 3% to 4% of your balance annually. Your funds should last for decades with that level of withdrawal. ❍❍❍

Financial Data

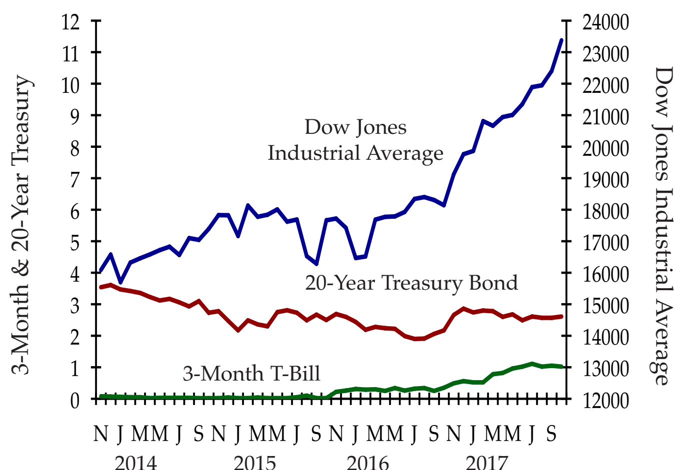
Indicator	Aug-17	Sep-17	Oct-17	Dec-16	Oct-16
	Month-end				
Prime rate	4.25	4.25	4.25	3.75	3.50
Money market rate	0.26	0.27	0.32	0.29	0.27
3-month T-bill yield	1.02	1.05	1.02	0.56	0.35
20-year T-bond yield	2.57	2.57	2.61	2.86	2.17
Dow Jones Corp.	2.95	2.97	3.08	3.17	2.76
30-year fixed mortgage	3.39	3.43	3.55	3.68	3.05
GDP (adj. annual rate)#	+1.20	+3.10	+3.00	+2.10	+3.50

	Month-end			% Change	
Indicator	Aug-17	Sep-17	Oct-17	YTD	12-Mon.
Dow Jones Industrials	21948.10	22405.09	23377.24	18.3%	28.9%
Standard & Poor's 500	2471.65	2519.36	2575.26	15.0%	21.1%
Nasdaq Composite	6428.66	6495.96	6727.67	25.0%	29.6%
Gold	1311.75	1283.10	1270.15	9.6%	-0.1%
Consumer price index@	244.80	245.50	246.80	2.2%	2.2%
Unemployment rate@	4.30	4.40	4.20	-8.7%	-16.0%
Index of leading ind.@	128.30	128.80	128.60	3.7%	3.4%

— 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 2013 to October 2017



Past performance is not a guarantee of future results.

Complacency Is Not Your Friend

As we stretch into the final quarter of the year, I want to remind everyone that it is time to **1) plan contributions and distributions for your retirement plans; 2) Work with me to coordinate tax planning for capital gains/losses to maximize returns; 3) Discuss any changes that may be affecting you in the coming year; 4) Review current allocations and stop-loss limits on your portfolio.**

And with that housekeeping announcement complete, let's talk about the market and the politics that may be affecting your investments in the near future.

1) **Rising interest rates** – it appears we may finally see interest rates increase by the Fed. Since the increments will be small at first, this should have little effect on stock prices but may slow down real estate value increases, which have returned to a bubble-like environment throughout the country. Bond valuations should decline, but since they represent a very small percentage of my clients' allocations, it should have a minimal effect on account valuations.
2) **Tax Reform/Reductions** – The potential simplification and reduction of the personal income tax brackets combined with a massive reduction in corporate tax rates could be a huge catalyst for GDP growth in the years ahead. Personally, I believe it is the only hope for U.S. growth to be able to resume a 3–4% GDP growth rate, which is a must for the U.S. to attract new companies to reside in the U.S. and create future jobs. If the corporate tax rate is lowered from 35% to 20%, nearly $3 trillion of investable funds can be brought back ("repatriated") to this country for investment, acquisition, and increased financial stability. Without tax reform, U.S. profitability will likely plateau and put pressure on U.S. stock market valuations.
3) **Major technology trends: Electric cars** – The advent of the explosion of electric cars is at our doorstep. New car companies and new technology companies will emerge. Volvo has already stated they will produce only electrics. China and India are projecting large percentages of their drivers to be converted by 2030, and "Moore's Law" is in full swing as the future electric cars will be less costly and far more efficient as battery technology accelerates. This will have far-reaching effects on the energy and auto industries worldwide.
4) **Emerging new drugs and medical devices** – It is likely we will begin to see effective drugs for the treatment of Alzheimer's and various cancer treatments in the next five to seven years. With so much negative discourse being discussed about the cost of drugs, this is definitely understated at this time. Handheld medical scanners are becoming a reality, similar to what we all watched on *Star Trek* episodes years ago. Investments in medical breakthroughs and well-managed global businesses will continue to be one of the best areas for future growth.
5) **Soylent** – is a meal replacement product that is advertised as a "staple meal," and some people have very adequately lived on this for 30 days at a time. It is available in a premixed beverage or powdered form and claims to provide all the nutritional requirements of an average adult. The evolution of products like this that reduce the cost of food budgets may play significant roles in the future. It could also have specific benefits to those living in poor countries where food scarcity and malnutrition exists. Soylent discloses all the ingredients of it product in all its recipes (or versions) and names the recipes like they are a computer app, such as 2.0. With the advancement of genetic scans that identify a person's individual chemistry, it stands to reason we may one day in the near future be able to submit our genetic scorecard and have a personalized meal replacement product that is customized and maximized for our health needs shipped to our doorstep.

Please don't hesitate to call me with any questions or concerns. Thank you for your Trust and Confidence!

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