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**SENIORS/BOOMERS**  
**NEWSLETTER**

*'the retirement experts'*

*May 2016*

## **Economic Models Flashing Yellow**

According to the American Institute of Economic Research, their Business Cycle Conditions model has dropped to 38; its the first drop below a 'neutral' 50 in over nine years. This is based on seven Leading Economic Indicators.

Over the final three quarters of 2015, real gross domestic product fell from an annualized 3.9% in the second quarter to 2.0 percent in the third to 1.4 percent in the fourth quarter.

Along with a continuing drop in GDP, personal consumption expenditures have also slowed for every quarter. They provided 2.4 percentage points in Q2; 2.0 points in Q3 and 1.4 points in Q4.

Things could very well change in the coming months based on revisions to government data, or simply a bounce-back in the economy, however; it's important to pay attention to these figures which could be a precursor to a recession. The AIER is not predicting a recession...just holding up the caution flag.

Finally, do not forget about inflation. Although we have been in a benign inflationary environment for quite some time, it's only a question of time before it begins to take a bite out of your budget.

## **Protecting Your Portfolio**

There are a myriad of rules/guidelines to follow in order to protect your investments (more than could be enumerated here), but I'll give you several to think about:

1. Don't fight the tape. This means if professional traders are selling a stock,

don't be a hero and jump in to buy. Their money can move the market more than yours can.

2. Don't fight the Fed. If the Fed wants the market to go up, and shows you this with easy money policies (low interest rates), go with the flow. Conversely, if they decide to tighten by raising rates, don't get in their way.
3. When things are getting extreme and the crowd is all in on any trade or trend – stay away. If the crowd was always right, all the crowd would be rich.
4. If a company misses their earnings estimate it's generally best to sell your stock...unless you have other specific reasons for owning it in the first place... and those reasons are still valid.
5. Look at a stock's relative strength. You can see this for free at [www.morningstar.com](http://www.morningstar.com). Go to tab for CHART, then scroll down the INDICATOR sidebar to Relative Strength Index. Relative strength below 30 means the stock is oversold; above 70 means overbought.
6. Another free chart on Morningstar can be found in the same location as Relative Strength. It's the BOLLINGER BANDS. This is a mathematical calculation giving you a top and bottom range for a stock's price today.

7. A third free chart on Morningstar is the MOVING AVERAGE. Check out the 50 day vs. 200 day moving average to see if the trend for the stock price is going up or down.
8. Adhere to trailing stop-losses. (usually between 20-25%).
9. Never put more than 5% of your investment capital in any one stock. That way, even if you have one of your positions drop like a rock, your loss is limited to 1% of your total portfolio value. (20% stop loss **times** 5% position size).

## MISCELLANY



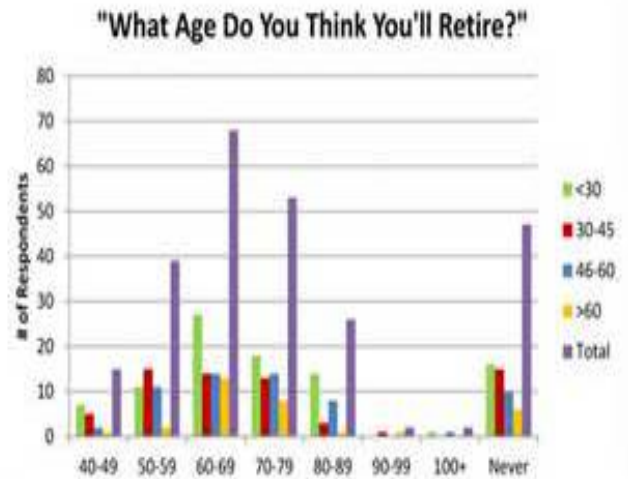
- You can find an Emergency A-Z guide to medical emergencies...injury prevention...checklist for seniors, etc. at [www.EmergencyCareForYou.org](http://www.EmergencyCareForYou.org)
- Google has a website where you can save significantly on flights by allowing you to put in flexible dates or even letting you check on fares to a variety of airports within a state or country. Go to [www.Google.com/flights](http://www.Google.com/flights)
- About 20% of newly diagnosed adult cancer patients in the USA are eligible for clinical trials. The National Cancer Institute has a website which lists 12,000 ongoing trials looking for participants.
- If you find yourself only able to find 'premium-economy' seats when online trying to get a seat selection for your flight...don't. The airline must either give you the economy seat you booked when you check in at the airport...or upgrade you for free if they don't have a economy seat available.
- A web site exists that helps you see what others are doing about medical conditions that you and they share. Go to [www.patientslikeme.com](http://www.patientslikeme.com)

- Find out if your medications are safe through a new FDA web site. Go to [www.fda.gov](http://www.fda.gov) and click on 'drugs', then click on 'drug safety'.

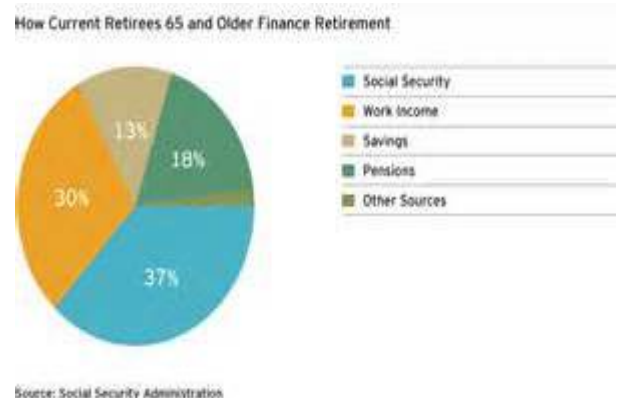
## Retirement Facts:

Many people think they are going to retire later than they actually do...usually for health, family or layoff reasons. Currently the average age for retirement in the United States is 62.

Below is an interesting chart showing the age of expected retirement by different age groups.



The BIG question is how are you going to afford retirement, especially in a LOW or negative interest rate environment? As an interesting side note regarding negative interest rates, the Wall Street Journal recently reported that a Danish homeowner reported receiving a check from his bank – rather than sending the bank a check - for his mortgage. So there you have it. We should all move to Denmark and buy a house (heck, maybe even 2 or 3).



I'd like to touch on a couple of areas here, regarding social security and pensions.

In the past there was a strategy in which you could double claim social security benefits using the 'file & suspend' rule. I won't go into how that works because it is going away 180 days after the budget agreement was passed into law on November 2, 2015. That means if you haven't already begun using this strategy (grandfathered in) by May 2, 2016, you are out of luck.

The second strategy also going away under the same agreement and time frame is the 'restricted' application just for spousal benefits. As of next week, an application for benefits means that the applicant must take his or her benefits along with the spousal benefits.

On the subject of pensions, there was a recent article in Reuters with scary statistics about the health of pensions in this country. The biggest takeaway from the article was that the aggregate shortfall of American public sector pension plans is somewhere between \$1 trillion and \$3 trillion, according to Citigroup. Also, U.S. Corporate pensions assume a rate of return of 7.1% on plan assets. Good luck with that one!

Finally, Citi estimates that pension costs for 20 OECD countries will come to \$78 trillion in current money, which is nearly twice their reported aggregate national debt. The point here is something will have to give: either entitlements will have to be cut, taxes raised or public services reduced. None of these are particularly popular outcomes...and what politician is going to be the first to actually do one or all of these things???

## **The Importance of Succession Planning**

If you, or someone you know, own a substantial interest in a closely-held business, a succession plan may be the single most important component of your retirement and estate plan.

Without an effective business succession plan, your death or long-term disability could mean the end of the business you worked so hard to build. Many business owners are so busy running their companies that they forget to plan for the simple steps that will help them maintain or pass on the wealth that they shed a lot of blood, sweat and tears to accumulate.

At death or disability, no asset tends to decrease in value as quickly or completely as a closely-held business. Imagine a restaurant, doctor's office, retail shop or other small business that closes for 60 days. The value of the business may decrease rapidly and substantially – in some cases, completely.

A successful estate plan is one that minimizes estate taxes in the event of your death. When you die, estate taxes will be assessed based on the fair market value of any assets that you own, including all of the assets you would normally find on a personal balance sheet, such as cash, securities, your primary residence and any personal property. Life insurance proceeds AND the value of your business are also included.

*(do not ignore New Jersey estate taxes which currently run as high as 16% for estates over \$675,000. Estate taxes are generally due to the government within nine months following your death.)*

If your estate is comprised of illiquid assets such as real estate and your business, paying the estate tax bill due after that nine-month period expires could be troublesome and deplete everything you worked so hard to pass on to your family.

What about your retirement? Are there one or more buyers ready, willing and able to purchase your interest in the business at a fair price? A well-crafted buy-sell agreement can help families and business associates retain control of a business and protect its value in the event of retirement, death or disability.

With proper funding, a buy-sell agreement can help assure there will be a ready market for the business at a time when you or your family may require a source of retirement income, estate liquidity or surviving family living expenses.

A buy-sell agreement can also help minimize conflicts that may occur and establish a value for the business for Federal estate tax purposes. To help ensure the viability of your business and the financial security of your family, call me and we can schedule a time to explore the most appropriate design, valuation methods and funding alternatives for your particular business.

## Three Ways to Prepare for Rising Interest Rates

What I mentioned earlier is that inflation -down the road- is pretty much baked into the cake. The Federal Reserve Board has flooded the U.S. economy with a tremendous amount of liquidity and sooner or later the bill for their efforts is going to come due. This probably won't happen this year, but it certainly looms large within the next 9-18 months. (Remember the stock market is a forward looking mechanism. You'll probably see market weakness before the headlines appear in the newspapers). As inflation pokes its ugly head over the tree tops, the tool of preference for the FED will be to raise interest rates.

What is also pretty much a given, is that higher interest rates generally cause the stock markets to falter and bond prices to fall. That doesn't necessarily mean you should move all of your money into cash. An alternative is to consider investments that tend to be less affected by interest rate fluctuations.

### Commodities

About 95% of the commodities being sold worldwide are denominated in U.S. dollars. Therefore as inflation begins to be felt, commodity prices will rise. Another factor which will fuel this rally is the fact that about one billion people (one-seventh of the world's population) are moving away from poverty and going towards western style consumerism. That's a lot of new consumers. That means a lot of new things are going to be manufactured to fill that void.

New things need commodities. Look to invest in metals, energy and agriculture.

### Floating-rate bonds or "put" bonds

With floating bonds (also called variable-rate bonds), interest is periodically recalculated based upon a percentage of the prevailing rates for Treasury bills or other interest rates. And some "put" bonds have a feature which can allow you to redeem the bond at par value on a specified date before its maturity, so if interest rates increase, you might be able to cash in the bonds at any "put" date, recoup the principal, and purchase a higher-yielding bond.

As this can be a complicated endeavor, it's often a good idea to talk to an experienced financial advisor about this strategy.

### Short-term bonds and bond funds

When interest rates are rising and bond values are falling, you might not want to be locked in to a bond that doesn't mature for several years, since it could be worth less than a newer issued bond. However if you purchase a faster-maturing bond, you might be able to replace it much quicker. You can do this yourself by purchasing individual bonds. Or you can purchase shares of a short-term bond fund that has a track-record for buying and selling bonds on a continual basis.

### Dividend-paying stocks

In many cases, dividends might compensate for falling stocks prices. With this in mind, it may be worthwhile to consider stock investments in companies that have a track-record for paying consistent **and growing** dividends. Furthermore, dividend-paying stocks can be a reasonable investment from an income tax perspective, because dividends are currently taxed at 15% for most taxpayers. Some pay zero, the top bracket pays 20%.