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SENIORS/BOOMERS NEWSLETTER

'the retirement experts'

October 2016

ANNOUNCEMENT!!!

A vast number of financial advisors do not currently have a viable succession plan. The development of one is obviously very important in order to assure continuity of care for their clients and their client families in the event that something were to happen to them.

To ensure this never happens to you, who have placed trust in me, MACMILLAN FINANCIAL is in the process of establishing a Strategic 'Independent' Partnership with one of the top Wealth Management firms in the United States. There will be absolutely no change to our relationship or to my financial planning/investment role with you. And, no, I have no plans for retirement.

I will be sending out a separate letter in the coming weeks giving you many more details about the new partnership, and the enormous benefits and enhancements you will receive.

John

MARKET SNAPSHOT

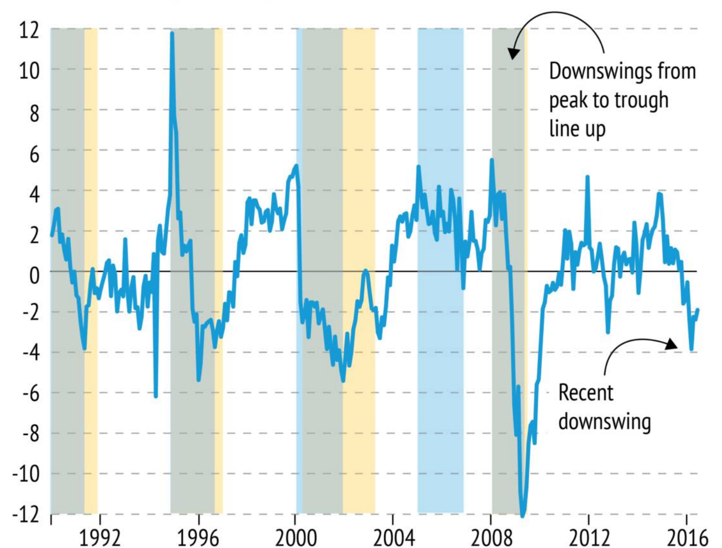
The stock market is said to be richly valued by some. Others play with the numbers and say it's cheap. (Just goes to show that you can torture the numbers until they will say anything you want).

Right now the forward P/E ratio is a little over 20 times earnings. The 25 year average is 15.9. So you could say it's leaning towards the expensive side.

According to FactSet, the S&P 500 is expected to see sales rise just 2.5% and earnings to fall -2.1% during the 3rd quarter.

What this means is that there are few value stocks out there to buy. Since early summer, I have only been able to find a handful of companies that had valuations reasonable enough to purchase.

When looking at the economy, there are several time-tested barometers you can examine. One of my favorites the Transportation index.



GDP is projected to finish 2016 at 1.8%...which is not particularly strong growth. Yet all the government reports are telling everyone how well the economy is doing; the average man in the street is not feeling like he's keeping up.

Take for example the purchasing power of the dollar today vs 10 years ago. The dollar today is only

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worth 83 cents equivalent in 2006...and that's when we've had almost no inflation and 0% interest rates.

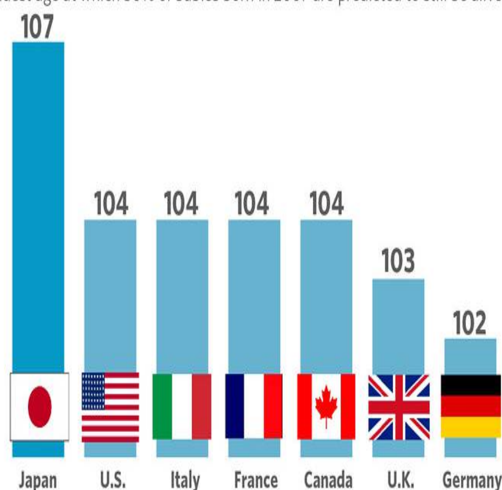
Wages have been stagnant not only since the epic recession that followed the 2008 housing crash, but for decades. In 1979, median production and non-supervisory workers (who account for 80 percent of all private-sector employees) made an inflation-adjusted $15.75 an hour. As of 2013, that pay had inched up only to $16.70 -- that's a total gain of 6.1 percent over 34 years, according to the Economic Policy Institute.

As of May, U.S. median income was $53,385, according to Sentier Research. That was nearly 4 percent less than the $55,446 people earned in June 2009, when the recession officially ended!

All these facts lead one to the conclusion that vigilance is warranted when looking at your investments. Remember, it's OK to hold cash when there's really nothing worthwhile to buy.

LONGEVITY FOR KIDS BORN IN THE NEW MILLENIUM

This next chart shows you why you have to impress upon your kids to impress upon their kids the need to start saving ***early*** for their retirement.

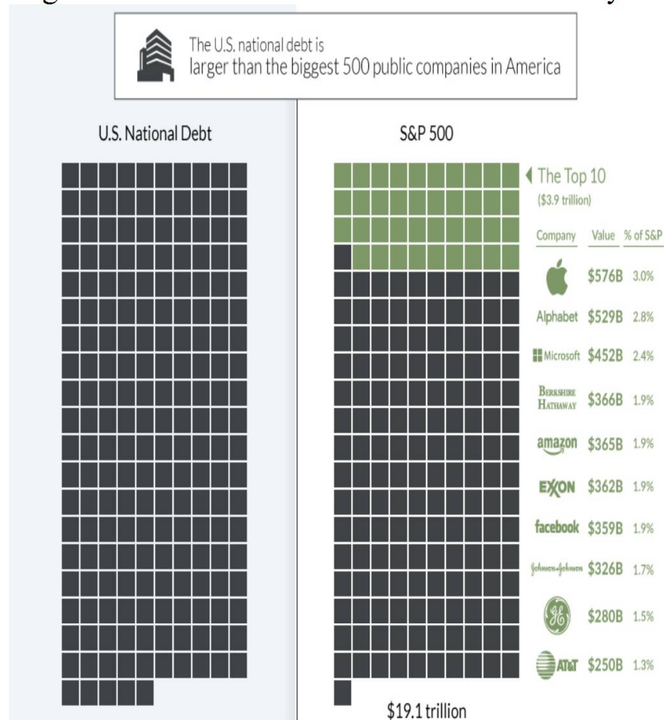


WILL SOCIAL SECURITY BE THERE FOR OUR KIDS AND GRANDKIDS?

I'm on a roll with charts this month, so I'll continue with two more.

It seems inevitable that there are going to have to be changes in Social Security that will affect our younger loved ones in the future. This is thanks to the level of spending that our government has recklessly committed.

This 1st chart puts into perspective just how large our national debt actually is:



Also, you have to bear in mind that this number does not include entitlements...one of which is, of course, Social Security.

Our long-term unfunded obligations in Medicare and Social Security alone reached nearly $49 trillion, according to the 2014 report from the Social Security and Medicare Boards of Trustees. That's two and a half times the size of the total national debt of $19.1 trillion, or more than $150,000 for every person in the U.S.

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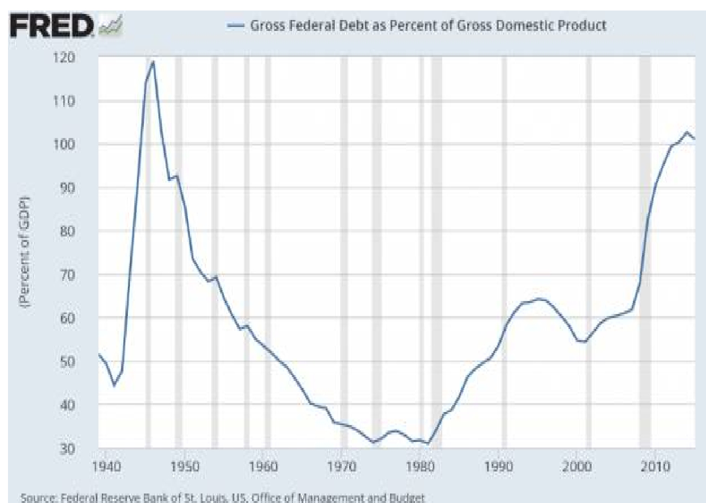
This 2nd chart illustrates that we have actually crossed the line where our debt **exceeds** our Gross Domestic Product...which is defined as the value of ALL the goods and services that we produce in the United States every year.



Bob Farrell's 10 Investment Rules

Who is Bob Farrell and why should we be interested in his investment rules?

Wall Street "gurus" come and go, but in the case of Bob Farrell, legendary status was achieved. He spent several decades as chief stock market analyst at Merrill Lynch & Co. and had a front-row seat at the go-go markets of the late 1960s, mid-1980s and late 1990s, the brutal bear market of 1973-74, and October 1987 crash.

Farrell retired in 1992, but his famous "10 Market Rules to Remember" have lived on and are summarized below, courtesy of The Big Picture and MarketWatch (June 2008). The words of wisdom are timeless and are especially appropriate for today's market conditions.

1. Markets tend to return to the mean over time
When stocks go too far in one direction, they come back. Euphoria and pessimism can cloud people's heads. It's easy to get caught up in the heat of the moment and lose perspective.

2. Excesses in one direction will lead to an excess in the opposite direction
Think of the market baseline as attached to a rubber string. Any action too far in one direction not only brings you back to the baseline, but leads to an overshoot in the opposite direction.

3. There are no new eras – excesses are never permanent
Whatever the latest hot sector is, it eventually overheats, mean reverts, and then overshoots.
As the fever builds, a chorus of "this time it's different" will be heard, even if those exact words are never used. And of course, it – human nature – is never different.

4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways
Regardless of how hot a sector is, don't expect a plateau to work off the excesses. Profits are locked in by selling, and that invariably leads to a significant correction eventually.

5. The public buys the most at the top and the least at the bottom
That's why contrarian-minded investors can make good money if they follow the sentiment indicators and have good timing. Look at Investors Intelligence (measuring the mood of more than 100 investment newsletter writers) and the American Association of Individual Investors Survey.

6. Fear and greed are stronger than long-term resolve
Investors can be their own worst enemy, particularly when emotions take hold. Gains "make us exuberant; they enhance well-being and promote optimism", says Santa Clara University finance professor Meir Statman. His studies of investor behavior show that "losses bring sadness, disgust, fear, regret. Fear increases the sense of risk and some react by shunning stocks."

7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names

This is why breadth and volume are so important. Think of it as strength in numbers. Broad momentum is hard to stop, Farrell observes. Watch for when momentum channels into a small number of stocks.

8. Bear markets have three stages – sharp down, reflexive rebound and a drawn-out fundamental downtrend

9. When all the experts and forecasts agree – something else is going to happen
As Sam Stovall, the S&P investment strategist, puts it: "If everybody's optimistic, who is left to buy? If everybody's pessimistic, who's left to sell?"

Going against the herd as Farrell repeatedly suggests can be very profitable, especially for patient buyers who raise cash from frothy markets and reinvest it when sentiment is darkest.

10. Bull markets are more fun than bear markets
Especially if you are long only or mandated to be fully invested. Those with more flexible charters might squeak out a smile or two here and there.

Sources: The Big Picture, 17 August, 2008 and MarketWatch, June 11, 2008.

The Only Difference Between a Tax Man & a Taxidermist is that the Taxidermist Leaves the Skin☺

(This is a cautionary tale of one retiree who suffered a loss of income in her later years. Although the story is fictional, its lessons are significant, and could save you and your spouse money at a time when you may need it most)

A few years ago, John and Mary Rodgers were enjoying a comfortable retirement together. Their annual income of $80,000 from Social Security, pensions, and withdrawals from John's IRA was enough to cover their living expenses and allow them to pursue leisure activities such as travel, golf outings, and fine dining.

That changed when John unexpectedly passed away. Mary continued to receive the same pension income. She also inherited John's IRA and continued to withdraw the same amount of money each year to maintain her standard of living and leisure activities. However, as the years went by, she found that she actually had less money to spend, and had to scale back on some of her vacations, golf outings, nights out with friends, and other daily expenses.

She wonders, "What happened to the comfortable retirement I was living before John passed away? Why don't I have as much money now as I did when my husband was still alive?"

Unfortunately, Mary is now in a higher tax bracket, and more of her annual income is going to the government and not to her retirement.

	Married Filing Jointly	Single
Taxable Income	$80,000	$80,000
Tax Bracket	25%	28%
Taxes Due	$12,847	$16,510

Among the many unfortunate circumstances that may occur upon the death of a spouse is that the surviving spouse could be pushed into a higher income tax bracket, even though his or her income level hasn't changed. While a surviving spouse like Mary may have some options to lower her income tax burden, one of the best times to find a solution to this problem is while both spouses are still alive.

If your situation is similar to John & Mary's, one possible solution that might help is to convert an existing traditional IRA to a Roth account. Although there is an income tax up front at the time of conversion, qualified distributions from the Roth IRA are free of federal income taxes, even if they are made by the surviving spouse.

Also, partial rollovers can be used in some cases to help reduce the income taxes incurred on the conversion. Consider a situation where a taxpayer is holding $100,000 in a traditional IRA and wants to convert this money over to a Roth account. Assuming the taxpayer converts $20,000 each year for five years, the income tax will actually be spread out over a longer period. This strategy can also prevent the converted funds from being taxed at the higher 28-35% federal tax rates.