MACMILLAN FINANCIAL
JOHN MACMILLAN, CHFC, RICP
P.O. BOX 66
ANNANDALE, NJ, 08801
T: (908) 236-7500
F: (908) 236-7511
WWW.MACMILLANFINANCIAL.COM

SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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'Government is like a baby's alimentary canal… with a happy appetite at one end and no real responsibility at the other' Ronald Reagan

This Ronald Reagan gem kind of makes me think of what's currently happening in the stock market. Everyday brings on a new celebration of new market highs as investors plow their money into all kinds of securities, feeling that everything is going up in value.

Not so fast! Sam Stovall of CFRA (which recently acquired S&P Global Equity and Fund Research) offered some insights into this market:

*as we know this is the 2nd longest bull market since WW2.

*it is also the 2nd most expensive market since the Dot-Com bubble of 2000.

*the Information Technology sector index, after 17 years, finally closed above its prior high of 988.49 set on March 27, 2000

*he applies the Rule of 20 to determine if the market is cheap, over-valued or just right. The way that works is that you add the market price-to-earnings (P/E) to the current rate of inflation. If that number is 20 or less, the stock market is either fairly-valued or perhaps even cheap. More than 20 signifies that the market is expensive.

According to his analysis, the current S&P 500 is over-valued by 10%. This leads to a very important question. Is a correction in the cards?

There are basically 2 ways that the market can correct itself.

1. Over time, the earnings growth catches up to today's valuations…without stock prices increasing more than where they stand right now.
2. The 2nd way is by correcting stock prices to reflect more historic P/E ratios.

What happens from here is…we'll wait and see!

I've mentioned in previous newsletters that a handful of stocks - about 10 – have accounted for more than 50% of the stock market gains for 2017. A sobering fact is there are 168 S&P companies that are down for the year and, in fact 40 are in bear territory having slumped 20% or more. Time to rebalance?

The Why & How Of Rebalancing*

Step 1: Determine what you're trying to accomplish.

The first step in the rebalancing process is deciding what you'd like to achieve with rebalancing. That, in turn, can help you identify what type of rebalancing you engage in.

Your goal: Volatility and/or risk reduction
Prescription: Asset-class rebalancing

If reducing risk in your portfolio is top of mind; you're concerned about market valuations; you know you get jittery during falling markets; and/or you're getting ready to retire…traditional rebalancing among asset classes, such as reducing stocks in favor of bonds, is the right strategy for you.

Life stage is important here, though. Even if you're a notably calm and collected 62-year-old equity investor, if you're closing in on retirement, rebalancing is probably a good idea

Your goal: Return enhancement
Prescription: Intra-asset-class rebalancing

If enhancing returns, rather than reducing risk, is a key goal, rebalancing *within* asset classes can be a beneficial strategy. The basic idea is that investment styles zip in and out of favor. Periodically pulling back on those that have

performed well while sending money to those asset types that have underperformed may enhance returns.
Investors can also consider rebalancing among geographies. While foreign stocks have performed well so far in 2017, thanks in no small part to appreciating foreign currencies relative to the dollar, they have in years past been clobbered by U.S. companies. That sort of persistent underperformance can provide smart rebalancing opportunities. Investors can further fine-tune their rebalancing efforts by rebalancing between developed- and developing-markets stocks.

Your Goal: Cash-flow production
Prescription: Asset-class and intra-asset-class rebalancing
Rebalancing can serve another valuable role for retirees: It can help them find cash for living expenses. With yields still low across asset classes, many retirees have struggled with traditional income-centric strategies. Today, retirees in search of income can find cash hiding in plain sight in the form of appreciated equity holdings. They can source their cash flows and/or fulfill required minimum distributions by focusing on their most highly appreciated equity holdings…probably those in the large-growth sphere.

Step 2: Find your current asset allocation and sub-asset-class exposures.
Once you've determined your rebalancing goal and what type of rebalancing you plan to engage in, take a look at your current portfolio allocations. Fully examine your current portfolio's actual exposures to both sectors and geographies. The Morningstar web site can be very helpful here.

Step 3: Compare your allocations to your benchmarks.
Armed with your portfolio's true exposures, you can then compare them to your targets. All investors should be operating with some type of blueprint for their portfolios' asset-class exposures. A financial advisor can help you customize your asset mix based on your own situation.
If you're engaging in rebalancing within asset classes, you'll need some benchmarks, too. A total market index can help you gauge style exposures.

If you're managing your portfolio's geographic exposures, the U.S. currently constitutes about 53% of the globe's total stock market value. Meanwhile, roughly 9% of the globe's market cap is designated emerging and the remainder developed.

Step 4: Focus on tax-sheltered accounts
Selling appreciated securities can lead to tax consequences if you're doing so within a taxable (i.e., non-retirement) account. That's why it makes sense to concentrate any rebalancing efforts within your tax-sheltered accounts, where you won't face tax consequences for switching things up.
While you don't want to get in the habit of over-trading in your 401(k) or other company retirement plan, when you are able to dodge both tax and transaction costs when you make trades in such accounts, you should probably do so.
If you're taxable account looks particularly problematic--for example, it has way too much equity risk and you plan to retire soon, it pays to mind tax consequences before scaling back on highly appreciated positions. Investors in the 10% or 15% tax bracket currently pay a 0% capital gains rate, but everyone else is on the hook for capital gains tax. In lieu of triggering a tax bill, see if you can't address your asset-allocation issue by steering future contributions into the underweighted areas of your taxable account. Alternatively, use the specific share identification method when harvesting winners, earmarking high-cost-basis lots for sale rather than lower-cost-basis ones.

Step 5: Identify specific candidates for pruning and additions.
Identify specific holdings for pruning and addition. Even if your main rebalancing goal is to reduce risk by scaling back your equity exposure, you can also be savvy about which stock holdings you scale back on and which you add to.

STEP 6: Identify trouble spots:
You can also use rebalancing to address trouble spots in your portfolio--for example, trimming the stock that represents an overly concentrated position, or selling the equity fund that has seen a succession of portfolio managers in recent years. In so doing, you can reduce risk and improve your portfolio's fundamentals at the same time.

***(excerpt from Morningstar)**

25 Risks That Can Ruin A Retirement:

I was reviewing a few of my textbooks from courses I took at the American College, when I received the RICP designation…***RETIREMENT INCOME CERTIFIED PROFESSIONAL***. The list below highlights some of the key retirement risks that seniors face; some are controllable…some are not:

- RISK 1: LONGEVITY
- RISK 2: INFLATION
- RISK 3: EXCESS WITHDRAWAL
- RISK 4: HEALTH EXPENSE
- RISK 5: LONG-TERM CARE
- RISK 6: FRAILTY
- RISK 7: FINANCIAL ELDER ABUSE
- RISK 8: MARKET
- RISK 9: ASSET ALLOCATION
- RISK 10: INTEREST RATE
- RISK 11: LIQUIDITY
- RISK 12: SEQUENCE OF RETURNS
- RISK 13: FORCED RETIREMENT
- RISK 14: INCOME LOSS
- RISK 15: RE-EMPLOYMENT
- RISK 16: EMPLOYER INSOLVENCY
- RISK 17: LOSS OF SPOUSE
- RISK 18: UNEXPECTED RESPONSIBILITY
- RISK 19: TIMING
- RISK 20: PUBLIC POLICY
- RISK 21: LEGACY
- RISK 22: OVERSPENDING
- RISK 23: CREDIT CARD
- RISK 24: DEBT SERVICE
- RISK 25: BAD FINANCIAL ADVICE

How To Avoid A Financial Shakedown

Here are 10 tips, courtesy of Investing Daily, on how to avoid getting ripped off by a financial adviser:

1. **Verify the existence of a third-party custodian.**

When you write a check to a financial adviser, the check should go to an independent custodial organization.

2. **Make sure an independent auditor is involved.**

Ask who audits your adviser and make sure they're legitimate and duly licensed to operate in your state.

3. **If your adviser has recently switched accounting firms, determine why.**

New accounting firm? That's another red flag. If your adviser has dumped his accounting firm, maybe it was because the accountants responsible for verifying the books felt uncomfortable and had been raising a stink.

4. **Do your homework; investigate the adviser's background.**

Conduct background checks of your adviser, starting with the Financial Industry Regulatory Authority, which regulates the financial advice industry. They'll let you know if there is a history of sanctions, disciplinary actions or client complaints against your adviser.

5. **Be suspicious of a client network held together by a common culture.**

Fraudulent advisers find it easier to fool clients by making appeals to their group identity, whether it's religious or ethnic. You should remain dispassionate and not make investment decisions based on emotional ties.

6. **Verify all academic credentials and professional certifications.**

Many employers don't fact-check resumes of job candidates, a lazy practice that they usually end up regretting. It's easy for someone to say they graduated from Harvard or earned a certain professional certificate.

Don't take your adviser's word on anything; check his background. If he cites an Ivy League education, give the university a call to make sure it's true. You'd be surprised at how brazenly some people lie about their academic record.

7. **Make sure you understand the adviser's management strategy.**

Don't blindly accept any assertion that your adviser has a foolproof way of making money. Learn his or her game plan. Also, make sure you read the fine print of any agreement. Hidden fees and costs can add up.

8. **If you're unable to withdraw money, call the financial cops.**

If you attempt to make a withdrawal and you're told that you can't, immediately contact the SEC or the FBI. That's when Ponzi schemes fall apart — when investors try to take out their money but there isn't enough to go around. Unfortunately, by this point, it's usually too late to get your money back.

9. **Be suspicious of extremely low management fees.**

Top-tier wealth managers who are legitimate typically charge hefty fees and commissions to their well-heeled clients. If a prospective adviser's come-on includes bargain basement rates, it's a warning sign that he or she has figured out other ways to get their paws on your money.

10. **Don't be swayed if the adviser touts associations with the rich and famous.**

Associations with movie stars, athletes and high-profile charities don't make you money and they're just meant to dazzle you. Name-dropping is no substitute for solid financial acumen and performance.