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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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"If I've made myself too clear, you must have misunderstood me" **AlanGreenspan**

Greenspan, at the zenith of his career, reappointed to a third term as chairman of the Federal Reserve, presiding over a robust American economy, the most influential - was among the most admired - of central bankers. He was praised for his judgement and acumen, but not least for the care he took in what he said...or rather what he did not say. Obfuscation is a central banker's tool. Greenspan turned it into an art form.

Many followers of the stock market are probably thinking the same thing when looking for signals of where it's headed. MIT Professor, Rudi Dornbusch once said, 'In economics things takes longer to happen than you think they will, and then happen faster than you thought they could'.

We've had a fairly volatile 2 months so far this year, and we're probably not through the woods just yet. With corporate scandals, potential trade wars, multiple cases of invasion of privacy, just to name a few, markets are on edge. What can we expect for the rest of the year?

Well with the recent corrections, believe it or not, stock valuations are actually right in line with their historical averages. We measure value in the stock market using two parameters:

Price/Earnings

Corporate Profits

On the first, the P/E ratio is sitting at its 25 year average.

The second measure, corporate earnings are expected to rise 27% this year, thanks in large part to the tax cuts recently rolled out. I also believe we will see continued expansion because of this for years to come.

If you want other indicators to look at, start with the Leading Economic Indicator (LEI). As I have written numerous times, recessions are almost always what kills a bull market.

Most importantly, if you wanted to find a time when the Leading Economic Indicator was rising and we entered a recession, you WOULD NOT find one. A rising LEI indicates a growing economy. Currently it's running at a reading of 92…a 3 year high

Next, you can look at the Yield Curve. When the yield curve flattens, it tends to indicate that an economic slowdown lies ahead. Generally, when the curve inverts you can expect a recession within 12-16 months.

Want one more? Check out Investor Sentiment. When it's 'irrational exurberance' watch out!!!

What "NOT" To Do in a Falling Market

Investing is an emotional issue for many. And, those emotions are the major cause for the losses many investors, all too often, experience. This is what is known as then FEAR & GREED syndrome.

Fear can cause people to dump investments when the market drops below their pain threshold. Regular readers of this newsletter know to combat this. Setup STOP LOSS points for every investment you make.

This **has to be done** at the time you initially buy the stock…when you are the least emotional about the purchase. You knew when you were getting in, but you also have to know when you should get out; both when it hits a low point as well as a high point. Have your price targets in place and on auto-pilot.

Greed gives one the temptation to try and squeeze every last cent out of an investment. If you know the stock is at, or even somewhat above, your price target tighten up on your stop loss so that you don't lose profits.

Greed can also cause an investor to take on higher risk investments in the hope of gaining higher returns. More risk = more returns…or = greater losses. Make sure you know your true risk tolerance.

The golden guideposts are:

ASSET ALLOCATION

DIVERSIFICATION

PERIODIC REBALANCING

FIXED ANNUITIES VS. BONDS

In his latest research, Roger Ibbotson, the economist known for his Stock, Bonds, Bills and Inflation chart, argues that fixed indexed annuities have the potential to outperform bonds in the near future and smooth the return pattern of a portfolio, given their downside protection.

Ibbotson's seminal work was around the idea that as you take on more risk in a portfolio, you get a higher return. But that risk is volatility, and as one approaches retirement, you can't afford the lack of stability.

"I've always recognized you have to de-risk, and we see that bonds are not necessarily the way to go today because the yields are so low," Ibbotson said. "It's pretty hard to have a falling rate environment today, when yields are below 3 percent on bonds."

When added to a portfolio, fixed indexed annuities can smooth out the return pattern, he argues. A fixed indexed annuity is a contract issued and guaranteed by an insurance company; it is a tax-deferred accumulation vehicle whose growth is benchmarked to a stock market index, rather than an interest rate.

Most uncapped products—which are the ones Ibbotson simulated here—are based on an index subject to a floor and a participation rate. In good years, you can make a lot of money because of the equity exposure. When the stock market is very risky, however, participation rates go down. But your return will never fall below 0 percent.

Ibbotson and his team at Zebra Capital Management ran hypothetical return simulations from 1927 to 2016, and found that net of fees, fixed indexed annuities had an annualized return of 5.81 percent, compared to 5.32 percent for long-term government bonds and 9.92 percent for large-cap stocks over that period. And this is a period of both rising and falling yields.

FIA Hypothetical Net Return (1927-2016)

	Large Cap Stocks	Long Term Gov't Bonds	FIA
Annualized Return	9.92%	5.32%	5.81%
Standard Deviation	19.99%	9.97%	10.01%
Minimum Annualized 3-Year Return	-27.00%	-2.32%	0.00%
Maximum Annualized 3-Year Return	30.76%	23.30%	27.56%

Source: 2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps; Zebra Capital; AnnGen Development, LLC

Ibbotson also simulated different portfolios and how they would perform in below median bond return environments—which he believes we're heading into—versus above median bond return environments. During below median bond return environments from 1927 to 2016, a 60/40 (stocks and bonds) portfolio returned 7.6 percent, on average. That compares to 8.12 percent for a 60/20/20 (stocks, bonds, and fixed indexed annuities) portfolio and 8.63 percent for a 60/40 (stocks and fixed indexed annuities) portfolio.

Below Median and Above Median Bond Return Environments (1927-2016)

	Below Median Bond Return Environments Average Return	Above Median Bond Return Environments Average Return	Overall Period Average Return
Long Term Gov't Bonds	1.87%	9.00%	5.43%
Large Cap Stocks	11.43%	9.84%	10.63%
FIA	4.42%	7.55%	5.98%
60/40 (Stocks & Bonds)	7.60%	9.50%	8.55%
60/20/20 (Stocks, Bonds & FIA)	8.12%	9.21%	8.66%
60/40 (Stocks & FIA)	8.63%	8.92%	8.77%

Source: 2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps; Zebra Capital; AnnGen Development, LLC

"I'm not necessarily advocating you go all in," on fixed indexed annuities, Ibbotson says. "I think combinations of stocks and bonds and fixed indexed annuities are good." These products may also be a good addition to a portfolio, given the recent stock market volatility.

"The stock market—generally it's gone up and does much better than bonds over the long term," Ibbotson said. "And people don't want to be out of it, but then of course here's all kinds of talk that maybe the stock market is high priced right now. So there's a danger of being in it."

HOW TO SAVE $5000 - $10000, EVEN $15000/YEAR IN RETIREMENT

- Learn to live with one car, paid in full.

  • Downsize your home to as small a place you can live in comfortably (even if it's a rental).

- Use the proceeds of the sale of one property to pay cash for your smaller property *without a mortgage*.
- Move to a tax-friendly state.
- Pay off all credit card debt.
- An older phone that still works can go a few more years and save thousands.
- Increase your auto insurance deductible to save on premium cost.
- Consider a *Medicare Advantage Plan* rather than an expensive supplemental plan.
- Consider saving money by using *regular gas*. The vast majority of cars on the road today will run just fine on regular unleaded. The link below will tell you the ones that must use premium. https://static.ed.edmunds-media.com/unversioned/img/pdf/premium.gasoline/premium.fuel.required.080817.pdf
- Stop spending money on expensive clothes. Unless you have a job that requires them, cheap casual and "nice" stuff for weddings and funerals is probably all you need
- Use the library for books, and only buy paperbacks or discounted hardcover.
- Don't valet park unless it's free.
- GreatClips or Supercuts will cut your hair just as well as higher priced salons.
- Don't be embarrassed to use a senior discount for the movies or a state park or the America the Beautiful senior pass for national parks.
- You used to pay for the premium cable package, because the kids insisted on it. Maybe you don't need that anymore.
- Downgrade your cellphone service if you don't use the minutes.
- Don't be embarrassed about using grocery coupons.
- For free or cheap entertainment, meals and social activities, look to your local senior center. Many senior centers offer group classes and trips, or they may negotiate cheaper rates for tickets to performances in your area.
- When you're retired, your insurance needs change. For instance, you aren't commuting anymore so ask your auto insurer to recalculate your rate.
- Also, you may be able to drop or reduce your disability and life insurance coverage. These plans are intended to replace your income to support dependents after your death
- Stop doing what you've always done**.** Do not automatically renew memberships in professional and civic organizations in which you're no longer

active.

- Mine the Internet**.** Use the Web to find senior discounts, early bird dinner specials or other dollar-stretching deals. Sign up for email alerts to get discounts at your favorite restaurants.

- If you're paying a monthly fee for your checking or savings account, you would benefit from researching some of newest banking offers out there

- And if you want to recoup some of the money you've already spent on collectible items, you can start selling them now and use those funds for any number of worthy financial goals.

- No matter where you live, you'll find plenty of retailers who are willing to reward you for shopping at their store

- Avoiding instant gratification is one of the most important rules of personal finance. Waiting 30 days to decide on a big purchase is an excellent way to implement that rule.

- If you're paying a lot of interest on your credit cards, transfer your balance to an entirely different card with a much lower rate.

- Installing a programmable thermostat is a no-brainer if you want to cut down on energy usage while you're not at home, or simply regulate the temperature in your home

- A deep freezer can be a great bargain after the initial investment, but only if you'll use it. Often, having some extra freezer space allows you to buy in bulk and pay lower prices overall. Even better, you can store lots of meals prepared in advance, enabling you to just go home and pop something homemade (and cheap) in the oven.

- Buy dry goods in bulk, and that's particularly true when it comes to items that don't perish.

- If you're looking for an easy and painless way to save money on everyday expenses, look to your credit card for help. That's right – with the right rewards card, you can save money on everything from your regular bills to your household expenses.

- When you do decide to enjoy a restaurant meal, there are ways to save money. Order an appetizer as your main course. They are generally more than large enough to fill you up, and will be much cheaper than the entrees. Another option is to split an entrée. Even if the restaurant charges you for splitting (as some do), this will still be a cheaper option than both of you getting your own meal.

- Refinance your mortgage. If you can reduce your interest rate by one percent or more, and reduce the term, it is often beneficial to refinance.

- Pay your mortgage payments bi-weekly, rather than monthly. This lets you painlessly make an extra payment each year, which can add up quickly in the form of home equity!

- Get rid of your home telephone. This is a great way to save money. Many don't do it because of the 911 service, and that's understandable. But if you're comfortable relying on a cell phone, there's no reason to keep a landline.

- Consider VOiP telephone service. Internet phone service can save substantial money over national carriers. Companies such as Vonage or Phone Power are a great option for internet telephone service. It costs as little as $8.33 a month.

- Consumers can save by joining the cord-cutting revolution and opting for a streaming stick from Roku, Google, or Amazon, or a set-top box such as Apple TV or Altice. Without a cable subscription, monthly entertainment costs can dip to less than $10 a month, and there is still plenty to watch.

- Upgrade your home and reduce utility costs with energy-efficient light bulbs and appliances

- Sites such as CamelCamelCamel and The Tracktor monitor the price of goods at stores such as Amazon, Best Buy, and Newegg so shoppers can pounce when the price drops.