Investment Directions

SUMMER 2018

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Did You See That?

On August 22nd of this year we passed an important milestone – this bull market surpassed the previous longest bull market from the 1990s. For those keeping score at home, in March of 2019 the run will be ten years. That comes with a footnote: although this is now the *longest* bull market ever, it may not be the *greatest*.

The Perils of Prognostication

The S&P 500 gained nearly 420% during the 1990s bull market when all was said and done, versus the current bull standing just over 320%.[1] You might be wondering what all this means and when this bull market will end.

To which I answer unashamedly, I don't know. This much I can tell you: America's great companies continue to earn increased profits, and higher profits often lead to higher stock values.

Despite the good earnings news, we have plenty of bad news or potential bad news that could derail this train. Political strife at home, trade battles overseas, inflation, and the potential for a global economic slowdown are all concerning. Any of these, or a surprise event, could spell the end of this bull market.

After weighing all these factors the research team at LPL, our broker/dealer, still projects a double digit gain for the S&P 500 this year.

The Big "V"

The end of a bull market is defined by a 20% dip from peak to trough. What will trigger it? We strive to be wise and we watch closely.

All that watching, waiting and worrying can lead to volatility. Some Wall Street dandies can get trigger-happy: selling on fear, buying back when the fear subsides, causing the market to swing like a roller coaster. We are aware of this and expect Volatility (the big "V") to continue.

Our Response

Based on our belief that this roller coaster may have some track yet to run, here are three changes we are making in portfolios we manage. This in the spirit of Wayne Gretsky who said "I skate to where the puck is going to be, not to where it has been.".

First, we are pulling back from the go-go growth investments that have been so hot in recent years in favor of more stodgy dividend paying companies.

Second we are looking for opportunity in smaller companies. Again, not drastic, just a re-weighting.

Finally, we favor stability in bonds, not reaching for the last dollar of income. In this environment it makes sense to be careful out there.

It is a beautiful day, enjoy the ride!

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[1] *The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.*

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My fellow teacher called for help – she needed someone who knew about animals. As a science teacher, I filled the bill. “Oh,” she added, “bring a net.” Expecting to find some kind of beast as I entered her classroom, I was greeted instead to the sight of excited kids watching a hummingbird fly around. Rather than use the net, I suggested they hang red paper by an open door. The bird would be drawn to it, I explained, and eventually fly out. Later the teacher called back. The trick worked. “Now,” she said, “we have two hummingbirds flying around the room.”

Driving my car one afternoon, I rolled through a stop sign and was pulled over by a police officer who recognized me as his former English teacher.
“Mrs. Brown,” he said, “those stop signs are periods, not commas.”

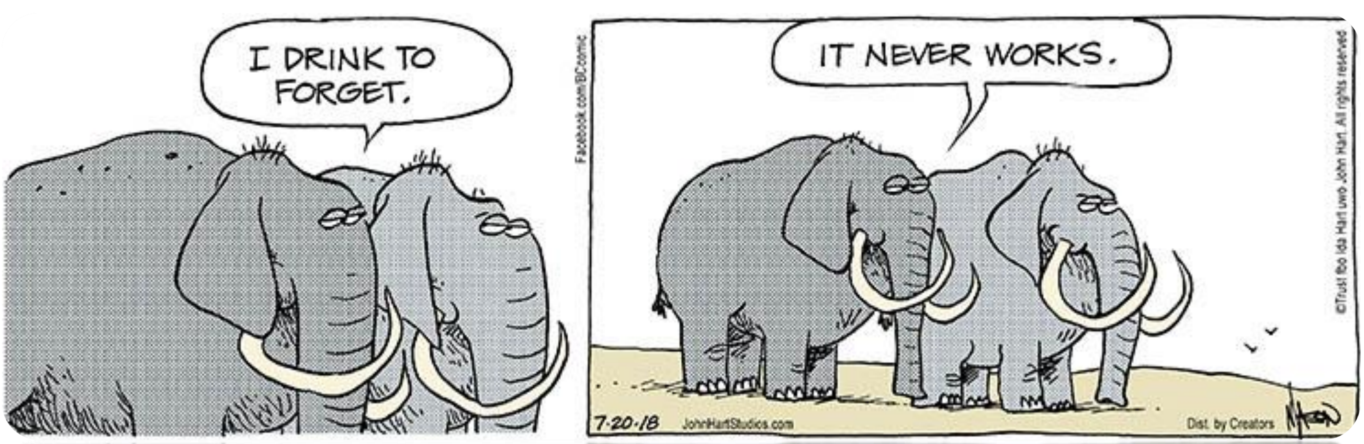
When I was 28, I was teaching English to high school freshmen in a school where occasionally the faculty and staff were allowed to dress down. One of those days I donned a sweatshirt and slacks. A student came in and his eyes widened. “Wow!” he exclaimed. “You should wear clothes like that every day. You look twenty, maybe even thirty years younger!”

Walking through the hallways at middle school where I work, I saw a new substitute teacher standing outside his classroom with his forehead against a locker. I heard him mutter, “How did you get yourself into this?”

Knowing he was assigned to a difficult class, I tried to offer moral support. “Are you okay?” I asked. “Can I help?”

He lifted his head and replied, “I’ll be fine as soon as I get this kid out of his locker.”

Sources - Jokes: Reader’s Digest, rd.com
Wizard of Id Comic Strip © John L. Hart FLP, printed with permission.
www.johnhartstudios.com



Retirement Topics:
Required Minimum Distributions

If you own a traditional IRA or similar qualified retirement plan, you should know if you live long enough, you may have to take a "Required Minimum Distribution" or RMD. Since we all hope to live that long, what follows is a brief primer covering how RMDs work.

This is a complex issue and space on this page being limited, my explanation here will be simplified. For more detailed information please see IRS publication 590-B which describes in many pages what this one page summary cannot. Please don't consider this article to be tax advice… really … this is intended to be educational only. For advice specific to your particular situation please consult a tax professional.

Putting Off the Inevitable

First an overview: Traditional IRAs are tax deferred -- which is to say contributions and any earnings in a traditional IRA are not taxed until they are taken out. The taxes are deferred, or put off, until you take a distribution from your IRA.

The IRS yearns for that day; until then you can be sure they are watching and waiting. Since the IRS has limited patience, they force us to take the money out … and pay the taxes … eventually. For most of us, that starts the year we turn 70 ½, when we are required to take our first RMD.

RMD Rules

Your RMD is based on your life expectancy – the IRS has a table – but to be more socially acceptable they use the term "distribution period" rather than "life expectancy."

In the year we turn 70 ½ years old, the IRS table says our distribution period is 27.4 years. Based on that, our RMD in the year we turn 70 ½ is our account value (actually the value at the end of the prior year) divided by 27.4. That works out to be 3.65%. Based on that, if we live to our full life expectancy of about 98 years, we won't run out of money.

When we reach age 80, our distribution period drops to 18.7 years which means they expect us to live to almost 99. That year we will be required to take out 5.35% of our prior year-end balance. The table below lists the distribution period for various ages and the percentage implied.

Keep in mind this is a minimum, not a maximum; we are always free to take out more. Also important: the penalty for not taking out the required minimum is currently 50% of the amount we should have taken but didn't… the IRS is serious about this, and we should be too.

The IRS "Don't Call it Life Expectancy" Table

Attained Age	Distribution Period	Distribution Percentage
70 ½	27.4	3.65%
75	22.9	4.37%
80	18.7	5.35%
85	14.8	6.76%
90	11.4	8.77%
95	8.6	11.63%
100	6.3	15.87%

Source: IRS Publication 590. Did I mention I do not give tax advice? When it is time to take your RMD, please consult a tax professional.

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New Tools for New Times

The Secret to Wealth

At the core of every great fortune is a singular secret. Few have learned the secret and even fewer have been able to harness it's power.

Recognizing powerful concepts requires experience. Applying those concepts and tapping into their full potential demands discipline which is rare indeed.

The great secret on which all great fortunes have been built is to save:
to store wealth rather than to consume it.

No Substitute

In order to build wealth we must save. No other single investment strategy will provide as great a benefit as disciplined saving.

A dazzling investment strategy will bear little fruit if the funds invested are small. Brilliant investment selection is of limited value if gains are earned on meager savings. Time can be a potent ally but even fabulous performance over a long period cannot overcome a paltry nest egg.

A famous oriental proverb says that a journey of a thousand miles begins with a single step. Likewise, a trove of treasure begins with saving the first dollar.

The Value of Discipline

Some consider this secret to be unappealing. Every day millions of dollars are spent on lottery tickets, speculative investments and colorful plastic chips in hopes of avoiding the need to develop this discipline. Spending is easy, saving is hard.

Saving requires restraint. The siren song of stuff is constantly in our ears but stuff is expensive. After we purchase it we pay more to finance it, protect it, repair it, store it and insure it. Saving is a powerful habit; it grows from inner strength and a long-term view of life.

What do you Really Want?

If you desire a comfortable future, a well-stocked storehouse, a foundation of financial strength, save. If you want to retire and stay retired, to care for children or grandchildren, to provide a legacy to benefit your loved ones, save.

There is no substitute for saving and it is within the reach of all. After over thirty years in the investment business I believe the greatest single secret to financial success is to save for the future.