November – December 2018

# Money Moxie®

***TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE***

Smedley Financial Services, Inc.®

Since 1982

# *Your Leading Indicators*

Dear Financial Partners and Friends!

Leading economic indicators are predictive changes that give us clues about the future direction of the economy. Lagging indicators are after the fact. They confirm what has already happened.

Just as the economy has leading and lagging indicators, so does your personal financial preparedness. Regardless of your age, or alternatively, your personal lifecycle, ask yourself where you are in the following questions.

1. Do you have a three-to-six-month emergency fund that matches your net income?
2. Are you free of all debt?
3. If you were to die suddenly, would your family have enough money to live now and through retirement?
4. Do you have enough money saved for retirement? (See table.)
5. Are the beneficiaries and contingent beneficiaries on your retirement accounts, life insurance policies, etc., the way you desire?
6. Have you created will(s) and trust(s) and ensured they are up to date?

**Multiple of Salary In Retirement Savings**

| Current Age | Multiple |
|---|---|
| 20s | ½ |
| 30s | 1 |
| 40s | 3 |
| 50s | 4.5 |
| 60s | 6 |

If you answered "Yes," to all of these leading indicators, then you are financially prepared for the future. If you answered "Yes," to most of these, then you are on the right path. If you answered "No," to most of these, then you should take immediate action. Please come and talk with one of our expert wealth managers who have the experience, credentials, and training to get you to and through your retirement years.

So many changes can take place within a year's time, that when it comes to your personal finances, it is better to be safe than sorry. The most important people in your life depend on you. Will they be harmed or helped by your preparation or lack thereof?

Bullish Best Wishes,

Roger

Roger M. Smedley, CFP®
CEO

## *Make the Most of the New 2019 Limits*

**Start 2019 off on the right foot. The IRS has announced increased contribution limits to retirement plans and Individual Retirement Accounts (IRAs). Maximize your retirement by taking advantage of the new limits.**

| 2019 Limit | Employer Plans (401k, 403b 457) |
|---|---|
| $19,000 | Employee Contribution |
| $ 6,000 | Catch-up (age 50 and older) |

| 2019 Limit | IRA & Roth IRAs |
|---|---|
| $ 6,000 | Individual Contribution |
| $ 1,000 | Catch-up (age 50 and older) |

# The Life of a Centenarian

By Sharla J. Jessop, CFP®

We are experiencing a longevity wave; worldwide more people are living to age 100 and beyond – and Americans are leading the pack. Today's centenarians are living relatively active lives. The secret may be preparing physically, mentally, and financially.

Physical mobility does not begin at retirement. It's something you have to work on throughout life. Centenarians who enjoy an active lifestyle do so because they adopted an active lifestyle early on that includes regular physical activity. Finding a like-minded community gives these active seniors a sense of purpose and a reason to make an effort each day. Activities such as pickleball, swimming, and dancing have gained popularity among retirees.

Mental outlook has a significant bearing on a centenarian's sense of wellbeing. You have met them; these are the people who seem to have an endless smile and a consistent, positive outlook on life – regardless of their personal situation. Keeping an active mind is every bit as important as staying physically active. Staying involved in a community and regularly getting together with friends provide a sense of belonging and help prevent feelings of isolation and loneliness.

Financially, these folks have weathered many changes. Most receive some type of pension along with Social Security benefits, which provide an income base, and investments help supplement their income needs. However, they are facing a challenge they may not have believed would occur. Longevity. The longer they live, the more difficult it will be to maintain their standard of living as inflation takes its toll.

Cost of living increases (COLA) are built-in to Social Security benefits, but many pensions do not provide COLAs. Inflation's impact steadily eats away at the purchasing power of money. For someone who will be retired for 30 to 40 years, the reality can be disheartening. And while general inflation over a long period of time averages 3 percent, retirees face an even steeper inflation trend when it comes to medical costs, which increase between 5 and 6 percent annually.

You have heard us say it before, but the statistic warrants repeating. A married couple age 65 today has a 50 percent chance that one of them will live to age 92. That is both exciting and alarming. What can you do to prepare financially? Save as much as you can – then save some more!

Pensions are becoming obsolete for future retirees. In 1979, 30 percent of retirees had pension benefits. In 2014, that number had dropped to 2 percent, and the downslide continues. Without a pension to help provide a portion of retirement income, we have to pick up the slack. Rather than living only for today, we must look to the future. This is difficult, especially when faced with "present bias" – weighing today twice as heavy as the future. Planning for a longer life is essential, and it requires a balanced perspective now.

While we cannot make up for lost time, we can start saving more today. Adopt a mindset of preparing for the future. Each year increase the amount you are saving, even if by just one percent. When you reach centenarian status, you will appreciate every dollar you saved.  Not sure you are saving enough or what to expect when you reach retirement age? Let us help you determine your retirement goals and map out a plan to get started. If you are closing in on retirement, let us help you create a retirement income plan. We can determine your sources of income when you retire and how to make your nest egg last as long as you do.

# Diversifying Your Investments May Lead To Better Outcomes

By James R. Derrick Jr., CFA®

Is this as good as the U.S. economy is going to get? This is the question investors have been asking as storm clouds have settled over the stock market. During all this commotion, a silver lining can be seen with a strategy that may be helpful.

The paradigm shift for stocks, which began in October, is reminiscent of a change in early 2000 when a positive run for technology stocks abruptly ended. Unnoticed by some in 2000, the economy was still growing and a rotation of leadership in the stock market presented investors with new opportunities. This is where diversification can help.

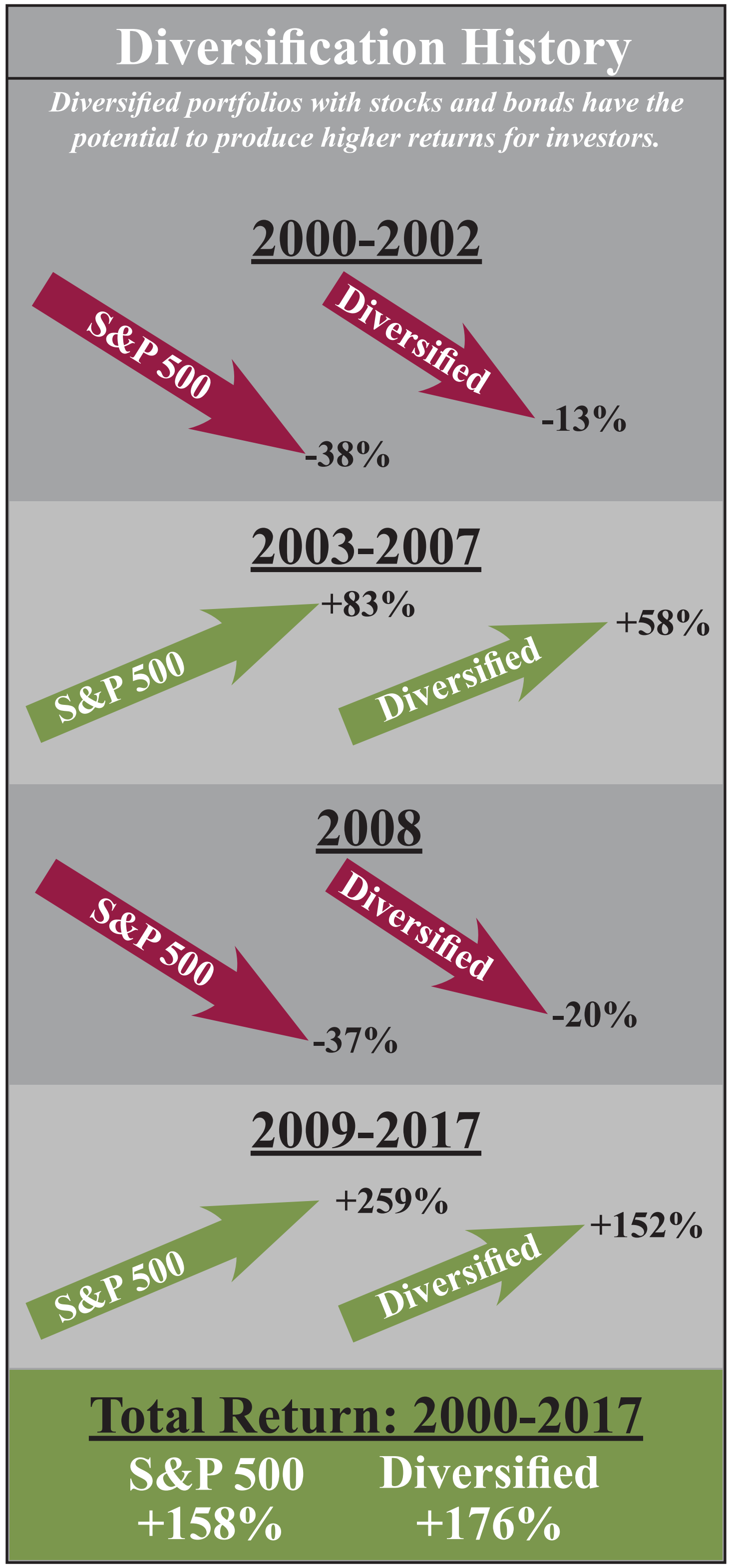
Take a look at the adjacent graphic. Diversification lost when the market lost and made less when the market gained. Despite these disappointing facts, the diversified portfolio would have made more money!

Why does diversification make a difference?

1. Limiting your losses helps.
2. No one knows when the market will rise or fall, so any strategy attempting to capture the up and avoid the down is unlikely to do well.
3. While there is no way to accurately predict the future of any one company, the market tends to rise over long periods of time – making losses temporary for those who stay diversified and invested.

As the storms arise, think of diversification as your umbrella. You may still get a little wet, but it will help. Your long-term perspective and optimism will help you hang on until the sun shines – and it will shine again.

The new year will continue to bring many opportunities for investors, especially with positive economic growth. There are no guarantees, but the current forecast calls for a 2.5 percent increase.




Diversification History data provided by Blackrock. Diversified portfolio consists of 60 percent stocks and 40 percent bonds. The S&P 500 is often used to represent the U.S. stock market. One cannot invest directly in an index. Past performance does not guarantee future results.

# How Can I Stay Calm When the Market Isn't?

By Leah Nelson

2018 has been a year of market volatility, and that can be scary at times. When market volatility hits, here are three things that can help you stay calm.


*If you find a nice coat, you'd be more likely to buy it at 10% off, right? It's the same way with investing. With stocks down from their 2018 highs, it made sense to shop in the stock market around Black Friday this year. The days that followed brought investors an early Christmas gift.*

**1. Focus on the Long-Term**
When we create financial plans, we focus on your long-term goals. When market volatility strikes, think to yourself, "Have my goals changed? Do I want anything different out of my investments than I wanted before?" If your long-term goals haven't changed, then you are still okay. If your long-term goals have changed, talk to your financial advisor and see what the best course of action is.

Before you make any knee-jerk reactions to market volatility, focus on the long-term. We don't want to sell out, lock in losses, and not have the opportunity to benefit from the market growth that will come later.

**2. Trust Diversification**
Investing in a diversified portfolio is even more critical when market volatility is high. We keep our portfolios diversified to help lessen the effects of market volatility. The basic idea of diversification is to spread your investments across many different areas of the market in order to reduce the risk. It usually works when things get rough because you don't have all of your money in the part of the market that is losing the most.

With your diversified investments, you are likely to still lose in a down market, but you should lose a little less. Most of the time, a diversified portfolio will come out ahead of a non-diversified portfolio after enduring the ups and downs of a market cycle. Remember, diversification works!

**3. Volatility = Opportunity**
You've probably heard this saying your whole life: "Buy low, sell high." That is the right mindset to have when it comes to investing, and we all know it. However, as humans, our emotions get in the way, and we convince ourselves to do the exact opposite.

Why would we ever be tempted to buy high and sell low? It is common to feel comfortable investing into something that has been going up because we assume it will continue. Again, we believe the trend will continue when the market is falling and is at a low point. As an investor, it is helpful to remember that changing our strategy based on how we feel can often be counter-productive.

Market volatility can create major opportunities to buy in at lower points. Try looking at it this way: if you find a nice coat, you'd be more likely to buy it at 10% off, right? It's the same way with investing. We want to buy at a "discount" to maximize the value we can get out of an investment. It can be hard to remember this in volatile times, which is why it is essential to have a professional who is experienced and educated in your corner to help you make sound investment decisions.

# Should You Sell Your RSUs?

By Mikal B. Aune, CFP®


Companies often give Restricted Stock Units (RSUs) to their employees as compensation for hard work and to retain talent. RSUs are a promise of actual company stock, as opposed to stock options, which are just the option to buy the stock at a future date and have no intrinsic value. The significant RSU restriction is that you aren't vested until a future date, typically over four years. If you leave the company, the company will retain the unvested shares. The main question is should you sell your RSUs immediately as each segment (or tranche) vests or should you hold on to the shares?

As with all planning, you should look at this as a piece of your financial puzzle, which includes short-term, intermediate, and long-term goals.

On the vesting date, the restricted stock units are converted into actual shares. You don't pay anything. However, the conversion creates a taxable event and your income for the year will be increased by the value of the shares – REGARDLESS OF WHETHER YOU SELL THEM OR NOT.

Let's say Sally works for XYZ company making $100k. She is given $200k in RSUs vesting over four years. This year, $50k in RSUs are available. When the RSUs are converted, her Adjusted Gross Income (AGI) will be increased by $50k, making her total AGI $150k. Sally may have to pay around $14k more in taxes. (Tax will vary depending on many factors: marital status, spousal income, deductions, etc.). If Sally doesn't have the $14k in the bank, how will she pay the extra taxes?

In many cases, employees end up selling their RSUs to pay the taxes unless the company's plan allows some shares to be sold to pay the taxes. As a rule of thumb, an individual shouldn't have more than 20 percent in their company stock. So, even if employees can sell shares to pay the taxes, you may still want to sell your vested shares. Selling allows you to diversify away from having too much in one investment. You may also sell to use the proceeds for other beneficial purposes, like building an emergency fund, funding your children's education, or paying down your mortgage.

When the first block of RSUs becomes available, there is typically some downward pressure on the stock price. A growing company can overcome this, but it is also a question of how long you are willing to wait.

If you hold the shares for longer than one year from the vesting date, your growth will qualify for long-term capital gains rates. So, if an RSU was given to you at $20 per share and after one year you sell at $25 per share, you will pay tax on the $5 in growth at the long-term capital gains rate. The risk in waiting is the stock price could go down.

Deciding to sell or hold your shares depends on a myriad of factors including taxes, diversification, company performance, market conditions, and the purpose of the money. Your decision should be based on your overall financial plan that includes short-term, intermediate, and long-term goals. If you need help creating your financial plan or even if you have questions about how to handle Restricted Stock Units, please contact one of our Wealth Managers that can help you navigate the waters of life. SFS

## Reasons to keep RSUs:

- You don't need the money, and can afford paying the taxes out of your own pocket
- You believe the stock will be worth more in the future and hope to get long-term capital gain treatment after holding them for 1 year

## Reasons to sell RSUs:

- Your RSUs will be taxed upon vesting, causing a large tax bill due in April of the next year even though you didn't receive any cash to help pay the taxes
- You could use the money for other beneficial purposes
- You want to diversify away from having too much company stock
- You're afraid of the stock losing value if many other employees cash in their RSUs
- You're afraid of what an economic downturn would do to the stock value

*SFS and its representatives do not provide tax advice; it is important to coordinate with your tax advisor regarding your specific situation.*

# You Can Contribute More
## to Your Retirement in 2019

By Jordan R. Hadfield

Good news is coming for those looking to max out their retirement plans. In 2019, the contribution limits will be raised on most retirement accounts. This opens the door to higher tax deductions, more tax-deferred growth, and better savings ratios.

Employee contribution limits for the 401(k), 403(b), and 457 plans will be raised to $19,000 annually. For those individuals age 50 and older, an extra $6,000 contribution is allowed. The ceiling on SIMPLEs climbs to $13,000 with an additional $3,000 for those 50 and older. Both traditional IRAs and Roth IRAs will jump to a $6,000 annual limit with a $1,000 extra contribution for those born before 1970.

Deduction phaseouts for traditional IRAs of active plan participants will also start at higher levels in 2019, from adjusted gross incomes of $103,000 - $123,000 for married couples filing jointly and $64,000 - $74,000 for single filers. Roth IRA AGI phaseouts will increase to $193,000 - $203,000 for couples and $122,000 - $137,000 for individuals.

If you have questions about how these changes can impact your financial plan, please call us to schedule a review with one of our Wealth Managers.

# Alternative Gifts for Family

By Lynette S. Watts

The holidays are just around the corner, and many people are making shopping plans. Let's face it; shopping can be stressful. Things get expensive and expectations are high during "The Most Wonderful Time of the Year." Here are some ideas to give the not-so-traditional friend or family member during the holidays. They allow both to focus on experiences rather than exchanging material goods.

1. Donate to a charity in the name of a loved one
2. Start a college or UGMA account for children or grandchildren.
3. Create a special memory – go to a play, ball game, museum, zoo, or plan a trip for later on down the road
4. Monthly membership to a club or gym
5. The gift of thought – redeemable coupons for service for your family or loved ones – babysitting, cleaning, homemade dinners, back massages, washing dishes
6. Use the money to travel to see the person for whom you would have bought a gift
7. Participate in Secret Santa like programs
8. Go cultural – pick a country and celebrate how they would from food to traditions
9. Go on vacation during the holiday season
10. Give the gift of time
11. Volunteer together – local shelters, hospitals, etc.
12. Give someone Christmas who can't afford it – give a meal and or a gift for each of their family members
13. Date nights with your spouse

Hopefully, this gives you some ideas to help create new fulfilling memories instead of filling up the home with more things.

# *Your SFS Team*

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

**Wealth Accumulation**
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

**Family Protection**
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

**Retirement**
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

**Disability (Injury)**
- Short-Term Disability Insurance
- Long-Term Disability Insurance

**Elder Care**
- Long-Term Care Insurance
- Hybrid LTC

**Employers and Self Employed**
- Health Insurance
- 401(k) Plans

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