March – April 2019

Money Moxie®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

How Emotion Drives Your Money

Smedley Financial Services, Inc.®

Your Personal Inflation Rate Versus Published Inflation Rates

Dear Financial Partners and Friends!

The cost of daily living, especially health care and long-term care, are not going down. But your ability to pay for them will drop once you retire. In fact, the longer you live, the higher the impact of inflation will be.

A case in point: The cost of a first-class forever stamp jumped 10 percent from 50 cents to 55 cents on January 27, 2019. On January 1, 1952, a first-class stamp only cost 3 cents for the first ounce.

People are living longer, much longer. A couple, both age 65, have a 50 percent chance that at least one of them will live to age 92.[1] The government's published CPI is for everything and everyone in general. Your personal inflation rate will be higher because, as you age, rising health care and long-term care costs will be a more significant proportion of your spending.

Health care costs are escalating. According to the U.S. Bureau of Labor Statistics, health insurance experienced an average inflation rate of 2.63 percent between 2005 and 2019. The overall inflation rate was 1.84 percent during this same period. What cost $20.00 in 2005, cost $28.76 in 2019. That's 43.78 percent higher 14 years later.

Seventy percent of people 65 and older will need long-term care.[2] However, Medicare will only pay for a limited number of days of skilled nursing care and only after hospitalization.

Unfortunately, these long-term care costs are rising at historic levels–much faster than other expenses. While the cost of living increased by 1.7 percent, long-term care rose 4.5 percent.[3]

Early planning for a longer life and a higher personal inflation rate is critically important. That's why we at Smedley Financial create and build plans for our clients to live to age 95 as well as develop a realistic, personal inflation rate for you to help you prepare for the coming surprises of retirement.

Bullish Best Wishes,

Roger M. Smedley, CFP®
Chief Executive Officer

1. "Five Ways to Protect Your Retirement Income," Fidelity Investments, Jan 8, 2014.
2. "Who Needs Care?" longtermcare.gov, U.S. Department of Health & Human Services, Feb 21, 2017.
3. "2017 Cost of Care Survey," Genworth, Sept 26, 2017.

2019 Just For Women

Friday, May 10, 2019
9:00 AM to 12:30 PM

The Gathering Place at Gardner Village

RSVP by calling Smedley Financial at 801-355-8888

How Emotion Drives Your Money

And There is Little You Can Do to Stop It

By Sharla J. Jessop, CFP®

Emotional Response

Financial advertisements make inflammatory statements such as "You cannot afford losses like those of the last recession" or "Making the wrong Social Security decision can cost you thousands." These advertisers want to make us feel that we need to make changes without considering the reality of our situation.

Everything we hear or see causes an emotional reaction; good or bad. **Information we hear or see hits the amygdala, the center of emotion in our brain within 12 milliseconds.**

Logical Response

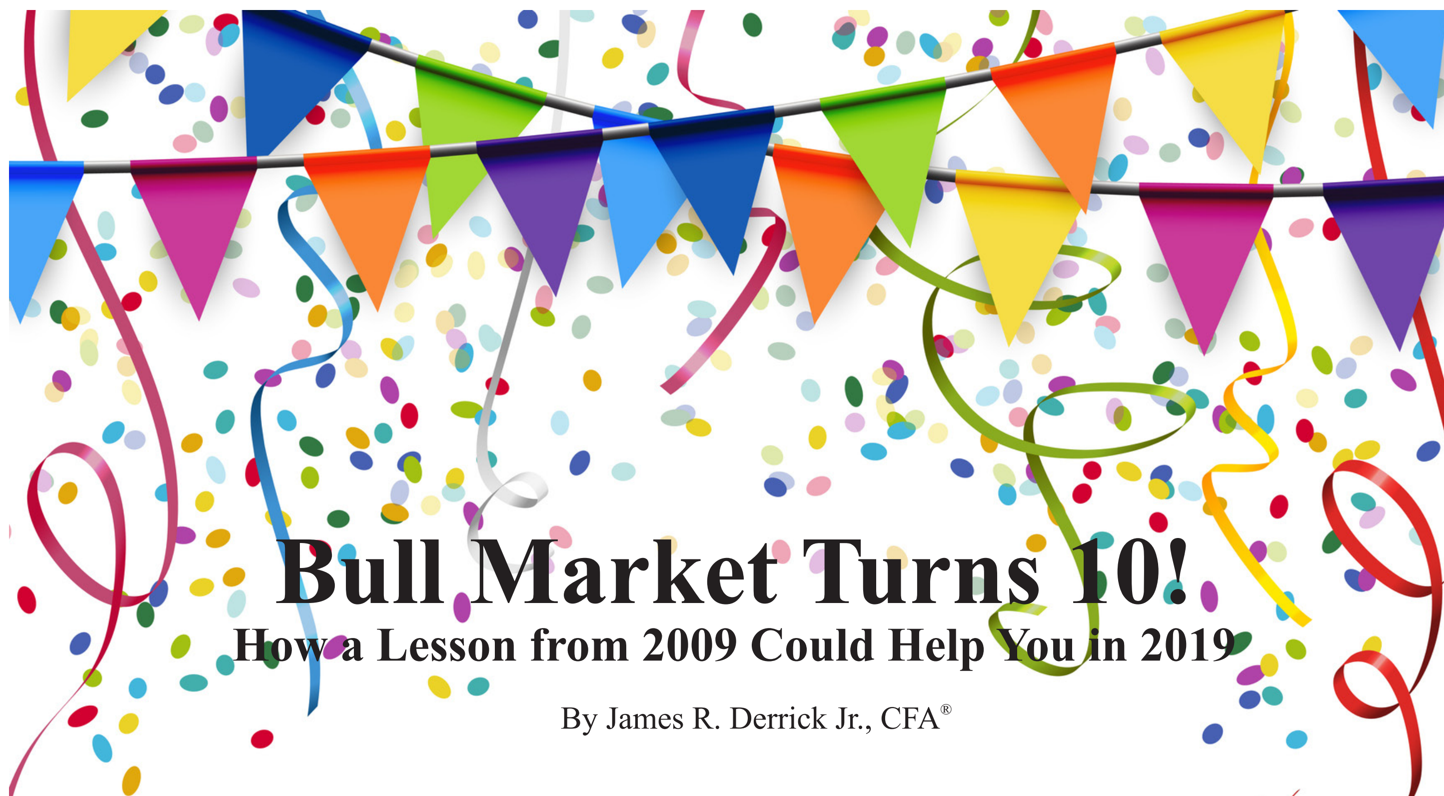
It takes 40 milliseconds for the same information to hit the logical part of our brain, the cortex.

By that time our emotions have hijacked our brain, and we cannot think straight. There literally is no time for rational thinking. Our minds were made up before we even realized what was happening.

Finding a Solution

Next time you find your logic being hijacked by emotion, take a step back. Think to yourself: "What if the situation I am fearing does not happen?" "What if the opposite happens and things are better than I think?"

Your financial plan is the tool we use to prepare you for market volatility and prevent emotional decisions from sidetracking you from your important financial goals. If you do not have a plan or have not recently reviewed your plan, I invite you to meet with one of our financial advisors.



Bull Market Turns 10!

How a Lesson from 2009 Could Help You in 2019

By James R. Derrick Jr., CFA®

Ten years ago, the stock market and the economy were in disarray. These were dark financial days for most investors and most Americans.

By March 1, 2009, the Dow Jones index had fallen over 50 percent from its high (from over 14,000 to nearly 6,500). One advisor asked me what would happen if it dropped another 50 percent. His faith in a turnaround was being tested. It turned out that the Dow did continue to slide lower, but for just one more week and the loss was not another 50 percent, but only 3 percent.

A client called to close her account. She was fortunate because she had invested conservatively and had actually made money since the crisis began. She didn't care. She was petrified–wanted zero risk. She sold out. That was March 2, 2009. Exactly 7 days later, the market hit bottom.

The client and advisor missed out. The S&P 500 has increased 305 percent since its low in 2009, and that doesn't even include dividends. As we have stated many times,

"If you want to see the sunshine, you have to weather the storm."
–Frank Lane

December 2018 provided the same lesson with less drama. This time, investors really seemed to be acting irrationally. The market fell around 19 percent in a very short amount of time. Sentiment surveys at CNN Money and the American Association of Individual Investors were recording record lows.

However, our indicators at SFS were not flashing a crimson red. In December 2018, those that focus on employment and consumers (70 percent of the economy) looked strong. Low energy prices also seemed good.

What about the sentiment indicators? Using the emotions of investors as a signal is not very reliable. These emotions can change quickly, so they cannot signal what is likely to happen in the coming year or years. They are also a better indicator of what not to do, which means we had another reason to be optimistic.

In short, we absolutely believed the market would reverse course and move higher. For all our investors that weathered the storm, the sun did shine again and brightly.

Where do we go from here? I said last December that things were not as bad as they seemed. Now I am telling investors that things are not as good as they may look.

With evidence of slow growth, the Federal Reserve will stop tapping the breaks on the economy. Plus, there is plenty of cash that left the stock market in the fourth quarter that has not returned to the markets, yet. Both are reasons to not give up hope for a positive 2019. SFS

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.

Don't Miss Out on Your ESPP

By Mikal B. Aune, CFP®

If you have an Employee Stock Purchase Plan (ESPP), you might wonder if it is a good value. An ESPP can be very beneficial, depending on how the plan is written. Check the plan rules to see if it lines up in your favor. If so, then you should (1) participate as much as you comfortably can and (2) cash out each year as soon as you can. Here's why an ESPP is usually a good deal.

An ESPP allows you to contribute a percentage of your income each paycheck towards the purchase of company stock. The payroll deductions go into an account and are held until the end of the purchase period, typically yearly. At that point, you "purchase" company stock usually at a 15% discount, which is a nice benefit by itself.

If your plan has a "look back" provision, it is a bonus. A "look back" provision gives you the price on either the offering date or the purchase date, whichever is lower. So, even if the company stock is down from the offering price, you still get it at a 15% discount from its lowest price. If the stock is up, you purchase at the lower price and may have significant gains.

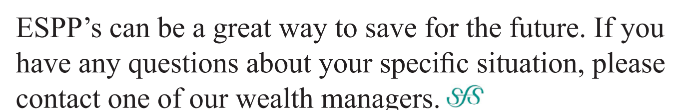
These potential gains may make the transaction attractive, but you shouldn't sink all your money into the ESPP. Participate at a rate that is comfortable and that doesn't rob your other buckets.

You should always have short-term, intermediate-term, and long-term buckets. Your short-term bucket should be your emergency fund, preferably in a Money Market or short-term CD (i.e. 1 year or less). We like to see an emergency fund of 3-6 months of living expenses.

Your 401(k) and other retirement savings are your long-term bucket. We prefer that clients save 10-15% per year for retirement. If you already have 1-2 months of living expenses in the bank and you are saving for retirement, you could use the ESPP to build the emergency fund and then to build the intermediate bucket for expenses like new cars, buying a home, etc. Once your short-term bucket is full, then participate more fully in the ESPP.

Cashing out immediately when the stock is available is the safest choice because you lock in guaranteed gains. Just be aware that the distribution will be taxable as ordinary income, unless your plan is qualified, which may have a more favorable tax treatment.

You can choose to hold the stock to lower your taxes. However, you must keep it for one year from the purchase date, and two years after the beginning of the offering period. At that point, the gain above the purchase price will be taxed at a long-term capital gain rate, which is always lower than your ordinary income rate. However, it may not be wise to wait a year. Saving taxes doesn't help if the stock value goes down by more than your tax savings. That is why the safest bet is to sell the stock as soon as it is available. Only hold on to the stock if your other buckets are filled and you are just investing for the future.



ESPP's can be a great way to save for the future. If you have any questions about your specific situation, please contact one of our wealth managers. SfS

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IRAs & 401(k)s

By Leah Nelson

Planning for retirement is daunting, especially if you don't know where to start. In this article, we'll walk through the basics of two common retirement accounts and two different ways you can contribute to them so you can make a more informed decision.

An IRA (individual retirement accounts) and a 401(k) serve similar purposes. They are both accounts that are used for retirement. They both have penalties for withdrawing money before age 59½ and the option to make traditional or Roth contributions.

So, which should you choose? If you don't have the option to contribute to a 401(k) then, of course, an IRA is the better choice. However, if you have the 401(k) as an option, that is usually a good option, especially if the company is matching part of your contributions, it is always a good idea to take advantage of an employer match. It's basically free money!

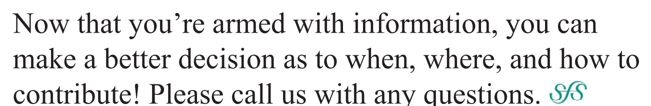
Another thing to consider is whether to contribute to a traditional account or a Roth account.

The primary difference between traditional contributions and Roth contributions is when they are taxed. Traditional contributions go into the account pre-tax, and everything is taxed as ordinary income when distributions are taken. In Roth accounts, the money is taxed before it is contributed, and the distributions are taken tax-free. Another bonus to Roth accounts, you can pass them to your heirs tax-free as well.

Depending on your personal situation, one account or the other may be more advantageous to you. In simple terms, if you are in a low tax bracket now, contributing to the Roth is a good idea. Tax rates are relatively low right now, and it's likely that they will be higher in the future. If you pay tax now, while in a low tax bracket, you will benefit from it because you won't have to pay taxes at the possibly higher rate in the future.

On the other hand, if you are in a high tax bracket now and expect to be in a lower tax bracket in the future, it would be prudent to make traditional contributions. The money will avoid taxes now and will be taxed later when your tax rate is lower.

Now that you're armed with information, you can make a better decision as to when, where, and how to contribute! Please call us with any questions.

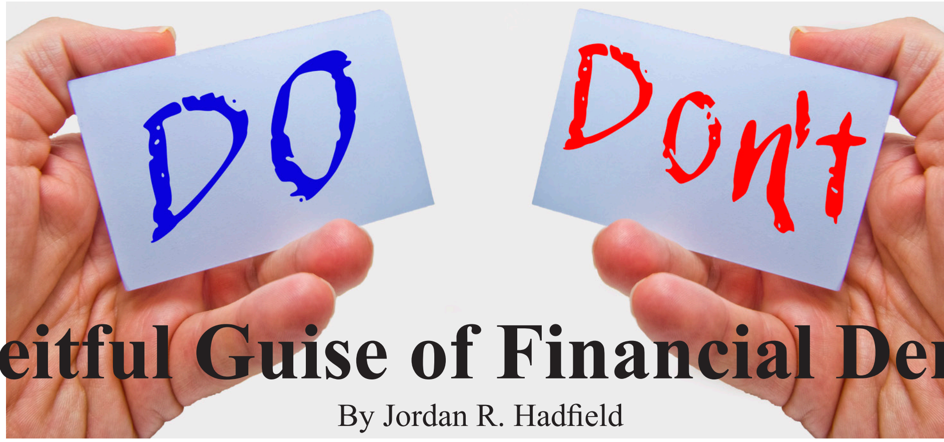


IRA

- **$6,000 contribution limit in 2019**
  Catch-up provision of $1,000
- **Not tied to an employer**
- **Different early withdrawal penalty exceptions**
- **Contributions not automatic**

401(k)

- **$19,000 contribution limit in 2019**
- **Catch-up provision of $6,000**
- **Possible employer match**
- **Loss of employer contributions possible if you leave before vesting**
- **Contributions come directly from paycheck**



Deceitful Guise of Financial Demise

By Jordan R. Hadfield

Grace Groner was born in Lake County, Illinois, in 1909. She was orphaned at the age of twelve. Although she lived to be 100 years old, Grace never married or had children. Most of her life was lived in a small one-bedroom cottage. She shopped at rummage sales and never owned a car. She worked her entire career as a secretary, earning a modest income.

When Grace Groner passed away in 2010, she left over $7 million dollars to a foundation established for the benefit of students at Lake Forest College. How did she become so wealthy? She invested in stocks at a young age, reinvested her dividends, and stayed invested so compounding interest could work its magic.

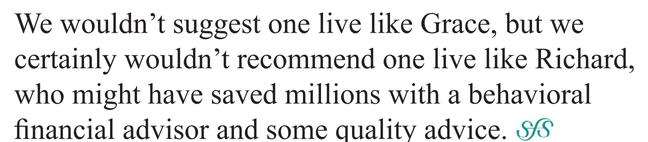
Richard Fuscone was an ambitious man. He received an education at Harvard and the University of Chicago. He then went on to become a vice chairman for Merrill Lynch. He was so successful in the investment industry that he retired at the age of 40 to pursue other interests. Richard owned two homes, one of which carried a mortgage of $66,000 a month. Richard Fuscone declared bankruptcy in the same year Grace Groner donated millions to charity.

Richard had a top-shelf education and an impressive background in finance. Grace had neither. How is that possible?

The answer is behavioral finance. Financial knowledge does not prevent bad financial decisions. Richard had an expert understanding of how markets and investments work, but behavioral finance is an entirely different animal, one he did not understand.

We, as wealth managers, are often judged by our investment management. However, that is only part of our service. The financial and behavioral advice we offer can make a more significant economic impact than people realize.

We work hard to ensure sound financial decisions are made and protect against bad ones, which are not always obvious and are usually made unknowingly.



We wouldn't suggest one live like Grace, but we certainly wouldn't recommend one live like Richard, who might have saved millions with a behavioral financial advisor and some quality advice. SFS

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Your SFS Team

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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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