September – October 2016

Money Moxie®

TARGETED FINANCIAL STRATEGIES FOR YOUR LIFE

Since 1982

SMEDLEY FINANCIAL SERVICES, INC.®

A Lesson from the Decathlon Gold Medalist

Greetings Dear Friends and Financial Partners,

During this year's Summer Games, I watched an interview with Ashton Eaton. At the time of the interview, Eaton was the reigning Gold Medalist and world-record holder in the decathlon from 2012. Eaton stated that he had a different mindset today than he had four years ago.

Eaton said his main goal four years ago was just to be there at the Summer Games. To get there, he did everything right physically. He was ready to go.

During the last four years, Eaton believed he had become smarter. This time around Eaton focused on preparing himself for all of the things he would not be able to control—the unknowable. He didn't want to be surprised. As a result of his efforts, Ashton Eaton once again became the Gold Medalist by winning the decathlon competition in 2016.

What can we learn and how can we benefit from the paradigm shift in Eaton's mindset?

Eaton's 2012 training can be compared to our retirement planning. In our preparation we may focus on a financial number and like Eaton we may just be glad to be there. However, retirement is really just the starting line of another race—a race that may be different than what we expected.

There will certainly be unexpected expenses and unforeseen health challenges. Your investments will rise and fall daily in the commotion of the financial markets. How can you manage your assets in a world with so many things you cannot anticipate, let alone control?

Your investment results may ultimately be determined by how you psychologically prepare for the ups and downs of the market. It's not the stock-market action that you should worry about. It's your reaction to what's happening!

At SFS, we can help you identify unforeseen events that may impact your financial well-being. We will create a plan that will help protect your assets and create an income designed to last throughout your retirement years. When the unexpected happens, you can feel confident. You have prepared. Call us.

Bullish Best Wishes,

Roger

Roger M. Smedley, CFP®
President

Your Identity and IRA Qualified Charitable Distributions

Qualified Charitable Distributions (QCDs):
On December 18, 2015, the President signed a law which includes a permanent extension of QCDs. This is great news for clients who wish to have their IRA Required Minimum Distribution go directly to a qualifying charitable organization. Contact us at 801-355-8888 for more information and specific guidelines.

Your Identity
If a distribution from your IRA account is going to a third party (charitable distribution) you can expect a call from our broker/dealer Securities America. They want to verify that you made the request and that someone has not fraudulently accessed your account information. This is mandatory and designed to protect your money.

Tax Harvest

By Alli Osgood & Mikal B. Aune, CFP®

The fall harvest is in full swing and will shortly be coming to an end. This is also a great time of year to do some financial harvesting to help you pay less in taxes.

If you are the owner of a non-retirement account, you could stand to benefit from a concept we call "tax-loss harvesting."

If you have a well-diversified portfolio, you in essence have different "crops" inside your account. Each year one crop may do better than another. You can use the proceeds from the well performing crop to offset the losses in the poorly performing crop. In investing we use the losses from the poorly performing crop to offset the taxes that you would normally pay on the crop that had a bountiful harvest.

Without getting too technical, here is an explanation of how taxation works in non-retirement accounts. Keep in mind this doesn't apply to retirement accounts like an IRA or a 401(k), which are only taxed on the amounts withdrawn.

Each year in non-retirement accounts you are taxed on dividends and interest, just like you are taxed on interest you earn in the bank. There may also be a capital gain; for example, selling a piece of land for more than you bought it. Capital gains like this are only taxed in the year in which the asset is sold. Where tax-loss harvesting helps is using capital losses in some investments to offset the gains in other investments.

Let's say you have an investment that made $10,000 this year. First of all, congratulations! If you sell that investment you may pay $1,500 in taxes. However, if you have other investments that have lost $10,000, you can sell those investments to offset the gains in the other investment. This would save you $1,500 in taxes. The proceeds can then be invested in a third investment for future growth.

If you have a bad stock-market year and you only have losses, there is still a silver lining: each year you can still offset your ordinary income by up to $3,000 in losses. If your losses are greater than $3,000 you can carry the losses to the next year, or until you have capital gains that will offset the losses.

There are some limitations imposed by the IRS to prevent people from selling and repurchasing the same investment to realize a gain or loss. If this transaction is done within 30 days it is considered a "wash-sale" and your purchase/tax benefit will be disallowed. You can, however, purchase a separate, unrelated investment to avoid the wash-sale rule. Much of the time, this isn't necessary as an individual will have enough investments with gains and losses to offset each other.

As the fall harvest comes to a close, be sure to look at your non-retirement accounts to see if there is some harvesting you can do to save yourself on taxes. As always, you can contact one of the friendly representatives at Smedley Financial to see if tax-loss harvesting would benefit you.

*Smedley Financial and its employees do not provide tax advice; therefore it is important to coordinate with your tax advisor regarding your specific situation.

Medicare 3 Minefields

By Sharla J. Jessop, CFP®

Simple missteps when choosing your Medicare and Supplemental Plans can cost you greatly if you are not careful. Here are a few to watch out for:

1. Prescription drugs

When it comes to paying for your prescriptions, all plans are not equal. In fact, plans can change the lineup of drugs they cover each year.

According to Kaiser Family Foundation, your costs for a prescription may increase ten times between formulary and non formulary drugs. Screen the plans to see how much each insurer will pay for the drugs you are taking.

You can visit Medicare.gov (under drug coverage, find health & drug plans) to search for plans that offer coverage for the drugs you take. Make a point to compare your drug plan with others each year to assure you are getting the best bang for your buck.

2. Medigap coverage

Getting the right plan for your specific needs can be tricky. If you choose Original Medicare Part A, you need a Medigap or supplemental policy – Part B to pick up where Medicare coverage leaves off. You also need to choose a separate Part D – prescription drug plan.

You can simplify by choosing a Medicare Advantage Plan – Part C which combines all of the coverages together and handles all claim processing through one carrier.

Some Advantage Plans still require you to pick up a separate policy for prescription drug coverage. In 2016, 69 percent of enrollees went with Original Medicare Plans while 31 percent chose Medicare Advantage Plans.

Medicare Advantage Plans generally require you to use a specific list of doctors and medical facilities through either a Health Maintenance Organization (HMO) or Preferred Provider Organization (PPO).

When choosing an Advantage Plan check to make sure your favorite doctors and the facilities you most often visit are covered on the list of providers.

3. Important deadlines

Harsh financial penalties can be avoided by knowing your deadline dates. Failure to sign up during the enrollment period could mean your Part B premium may be 10 percent higher – for life – for each full year you are late signing up for Medicare Part B.

If you are 65 or older, still an active employee and covered under your employer's health insurance plan you are not required to sign up at 65 unless your company has 20 or fewer employees. If this is the case, you may be required to sign up for Medicare Part A and Medicare Part B, which will become the primary payer when you have a claim and your employer's plan will become the secondary payer.

Once the clock starts ticking, there is only a seven-month window to avoid permanent penalties. Call our office if you have questions regarding the deadlines or need more information about the requirements.

4 Open Enrollment Facts Health Savings Accounts

#1

72 Percent of Employers Offered This Year

Health Savings Accounts have gained in popularity among employers who use them with high deductible insurance plans – shifting medical expenses to employees. HSAs allow employees to pay for medical expenses with pre-tax dollars.

#2

No Use It or Lose It Rules

Money stays in the HSA and rolls over year-after-year until you need it. Medical expenses can be reimbursed at any time as long as the HSA existed at the time of the expense and you retained receipts.

#3

Extended Contribution Time-Frame

Like an IRA, you can contribute to your HSA up until April 15 for the prior year. For 2016 the limit is $3,350 for individuals or $6,750 for families. If you are 55 or older you can save an additional $1,000.

#4

Cover Medical Expenses in Retirement

At retirement your HSA continues to grow and you can access your money tax-free to cover medical expenses. The rising costs of health care make the HSA a valuable retirement asset.

Subzero Rates Freeze Growth

and Hold Back Your Portfolio

By James R. Derrick Jr., CFA®

Crazy things are happening in the world! There is a chronic shortage of demand for goods in global economies. For years, governments have been fighting back—fighting back by dropping interest rates. Recently, rates overseas have fallen to subzero levels.

Negative rates—where lenders pay the borrowers—seemed unimaginable and foolish a few years ago. Now, they are beginning to feel like the new normal. How can individuals and countries flourish in such an environment? They can't!

What is it like to live in a subzero-rate world?

1. *The subzero world is so crazy that global interest rates are at their lowest level in 500 years of recorded history.*[1]

2. *The subzero world is so crazy that if you want the German government to borrow your money you have to pay! Hold that bond for ten years until it matures and the government promises to pay you back less than it borrowed.*

3. *The subzero world is so crazy that many homeowners in Denmark are no longer paying interest to banks for their mortgages. The banks are paying interest to them!*

Hans Peter Christensen, a recipient of a check from his mortgage company in Denmark, said this after receiving his first payment: "My parents said I should frame it, to prove to coming generations that this ever happened."[2]

The biggest borrowers in the world include the United States, United Kingdom, Germany, and Japan. The figure below shows how low these rates have become.

Average Rate	U.S.	U.K.	Germany	Japan
5-Year Bond	+1.2%	+0.2%	-0.5%	-0.2%

Bloomberg: August 31, 2016

Negative Rates Matter to Americans.
Low rates overseas make positive rates in the United States more attractive for investors, which pushes U.S. rates down as well. This makes it less expensive for us to take out a mortgage or a car loan. It creates opportunities for businesses to borrow and grow. On the surface, these low rates seem like a benefit.

Low Rates May Have Helped. Now They Hurt.
During the recession of 2008-2009, there was an economic emergency that required extraordinary effort to infuse calm and confidence.

The emergency is over. The economy should come off life support. The reluctance to move forward is now harming the very confidence it was meant to create.

Artificially low rates are also destroying natural incentives to borrow and lend.

Consumers and businesses do better when banks are healthy, but banks are not healthy. There is little profit to be made and a low incentive to offer loans when interest rates are so low. Why take the risk when the potential reward is so low?

Subzero and near-zero rates also encourage transactions that would not take place in a rational world. For example, many corporations now borrow just to pay dividends. Of the 500 largest companies in the country, 44 have paid more in dividends in the last year than their respective net income.[3] This financial engineering helps investors now, but does nothing to strengthen a company or its employees.

End the Pessimism.
Despite all the positives in the economy, consumer confidence is low. Investor sentiment is terrible. Most Americans believe we still have not recovered from a recession that officially ended over six years ago.

Look around. Americans are in a good financial place. Most people who want to work have a job. Unemployment is at just 4.9 percent. In Salt Lake City, where SFS is located, that rate is just 3.6 percent.[4]

Continued on next page

Then	5.2% Average interest on 1-year bond over last 40 years	9.3% Average rate on 4-year car loan over last 40 years	8.3% Average 30-year mortgage rate over last 40 years
Now	0.6% Average interest on 1-year bond in 2016	4.2% Average rate on 4-year car loan in 2016	3.8% Average 30-year mortgage rate in 2016

A Day of Reckoning Will Come.
The next financial scare could come after fantastic economic growth, leading to inflation and central banks would have to rapidly raise rates—shocking the economy. Or the storm could blow in from the opposite direction: economic slowdown.

If the Fed and other central banks don't normalize rates now then there will be fewer options in the future to help keep the world economies going in a real emergency.

It's Time to Begin Moving Back to Normal.
Central banks around the world should stop experimenting. The United States is strong enough to handle a more normal business environment. The Fed can do that by slowly bringing U.S. interest rates up.

The U.S. economy is not perfect, but it is good enough to handle borrowing one quarter of one percent higher. It could even help by sending a signal of confidence to the world—confident workers, businesses, and consumers.

Higher rates may cause the U.S. dollar to strengthen, and that could hurt American businesses that export. However, the United States has the best economy in the world and we are growing faster than any other developed country. Keeping our dollar artificially low may not be a good idea.

We can allow the dollar to rise a little as we bump up interest rates from their near-zero levels. This message of confidence may help increase demand worldwide—giving investors something to cheer about as well. SFS

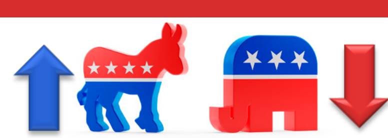
1. Bill Gross, "Negative Interest Rates a Supernova," Janus Funds, June 2, 2016.
2. Charles Duxbury and David Gauthier-Villars, "Negative Rates Around the World," *Wall Street Journal*, April 14, 2016.
3. Mike Bird, Vipal Mongaand, Aaron Kuriloff, "Dividends Eat Up Bigger Slice of Company Profits," *Wall Street Journal,* August 18, 2016.
4. Federal Reserve Bank of St Louis.

Stocks Predict Elections

By James R. Derrick Jr., CFA®

Yes, stocks can help predict who will be the next President of the United States. While this particular election season has been filled with an unusual amount of conflict, the stock market has been surprisingly calm.

What does this calm predict? Very little, so far. Direction of the market in the final 90 days is what matters.



In 2016, a positive market favors democrats and a negative market favors Republicans.

In 19 of the 22 presidential elections the change in the stock market in the 90 days preceding the election has correctly revealed the winner.

When the market rises during these 90 days then the incumbent's political party wins. When the market falls then the opposite occurs.

In August, the market was flat, which means that this election may be closer than some polls currently predict. Of course, there are no guarantees. SFS

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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