CONLON DART
wealth management

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Financial Success Made Easy

Okay, I'll admit it—that was a bogus headline, a bit like *Lose 50 pounds in 4 Weeks* or *Make Six Figures Flipping Houses*.

In truth, financial success rarely comes easily or quickly. Other than receiving a generous inheritance, there are no viable shortcuts to financial well-being. Even for people who win the lottery, the story often ends badly.

Success isn't always what it appears to be. High-earning doctors often retire with remarkably little in the bank. You've probably heard about wealthy pro athletes who've gone bankrupt. Meanwhile, a Boeing plant worker retires with no noticeable change to the lifestyle he had in working years. What gives?

Some of it is luck, good timing, or both, but the greater part of financial success involves staying out of your own way and avoiding crippling financial decisions.

Of course, crippling financial decisions don't flash a sign saying DANGER AHEAD. But often there are clear warnings along the way. Remember all the over-zealous dot-com investors, or the Las Vegas house flippers circa 2006? If they had slowed down and paid attention to signals the markets were giving, they could have avoided disaster, or at least limited their losses.

When considering what works, I can safely submit that we've learned a few things from our clients over the years. Some are easily-grasped lessons such as *save early, save often*. We can't harp on this one enough. Even in your 20s, when discretionary income is precious, you should sock some of that beer money into your company's retirement plan, and always take full advantage of matches when available.

In your 30s and 40s, the core message broadens to *Living Within Your Means*. That might sound overly simplistic, but as we develop a more long-term goal hierarchy—building a college fund, paying down a mortgage, funding a retirement account—it becomes easier to lose sight of the day-to-day and week-to-week expenditures that can add up to trouble. It's critical during this period to continuously monitor your savings rate against your spending rate.

No matter what phase of life you're in, an ill-timed investment can set you back. In the mid-1980s, my wife and I reached beyond our budget and bought a Brooklyn co-op when prices were at their peak. As luck would have it, we sold a decade later at a small loss. Maybe we could have read the market better, but financial and real estate trends over that decade were

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"The economy depends about as much on economists as the weather does on weather forecasters ."

Jean-Paul Kauffman
Journalist

Penciling Out Your Dream Vacation Home

Long ago, after a particularly memorable vacation—or sometimes during it—my wife and I would look at each other and ask, *Why don't we buy a place here?* Mostly, it was a fantasy game, often aided by an evening glass of wine, though there might have been an occasion (okay, many occasions) when I would peek at listings and crunch a number or two.

But back home, once again enmeshed in our harried lives, our crazy notion would inevitably fade. Did we really need that centuries-old, broken-down villa in Sicily? Probably not.

The upside of not allowing our vacation home fantasy to become reality is that we were able to travel to new places, unburdened by the costs and obligations of committing to a vacation home. I'm certain we would have missed out on many memorable experiences if that glass of wine had led to a purchase agreement.

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On Social Security Deficit Funding

"The best advice here is not to panic about the fate of our country's social programs."

Many were alarmed when the good people who run Medicare and Social Security recently released a report stating that the Medicare program will become insolvent in 2026 and Social Security will face a similar fate in 2034. The Medicare projection is three years earlier than the previous report, while the Social Security projection is unchanged from previous estimates.

These problems are not new, of course. People are living far longer than anticipated when Social Security was created in 1935; in fact, the average life expectancy for a person who managed to reach age 30 at that time was age 68 for men and 70 for women. Today it's 79 for men and 82 for women. Meanwhile, Medicare has been hit with higher-than-inflation medical expenses—along with, of course, those longer lifespans.

Alarmists point out that the Social Security and Medicare Trust Fund reserves are "invested" in government securities, which is essentially the government writing itself an IOU—currently to the tune of $2.8 trillion, which is the total "asset reserves" in our largest social programs. Individuals are advised not to run their own finances this way, accumulating deficits but meticulously keeping slips of paper around which represent a promise to pay back every single nickel and dime eventually. But in fact, today nearly all of the money paid out to Social Security recipients, and on behalf of Medicare enrollees, are simply transfers of money paid into the program by workers. The money comes in in the form of FICA payments and taxes on Social Security benefits, and goes back out the door to beneficiaries.

So where's this alleged deficit? That can be found on page 9 of the report, in a section labeled "Assumptions About the Future." There, the report makes economic projections about the next 75 years, including the future fertility rate (children per woman), mortality, the annual percentage change in worker productivity, average annual wage increases, inflation, unemployment and the interest rate earned by those IOUs the government is writing to itself. Page 18 shows a graph that illustrates the projected outcomes of three different sets of assumptions for all these (basically unknowable) variables, and one can see that two of them are, shall we say, not optimal, while the third projects not just solvency, but actual prosperity for the combined trust funds going forward well past the year 2090.

Even if the worst case comes to pass, and the programs goes "bust," they won't actually stop paying benefits. There will still be workers who pay FICA taxes, and even if there is no trust fund, these collected payroll taxes can be transferred, as they are now, to Social Security and Medicare recipients. The Social Security trustees report, on page 58, how much of the projected payments would be covered by workers going out to 2090 under the three future scenarios. The worst case scenario says that there will be roughly an 18% shortfall in 2040, rising to roughly 22% by 2090. Basically, that means that Social Security recipients, worst case scenario, would have to get by on 82% of the benefits they were expecting in 2040, and 78% if they manage to live all the way out to 2090.

And, of course, that's if nothing is done to shore up the program between now and then. One of the simplest options on the table is to raise the age people can collect full retirement benefits as the average lifespan goes up, basically "indexing" retirement benefits to changes in longevity. Congress could marginally raise FICA taxes or impose more taxes on Social Security income.

The best advice here is not to panic about the fate of our country's social programs. There is no question we need to address their solvency, and with gridlock in Washington, that seems like a bit of a long shot. But even if Congress can't agree on tweaks and fixes, the world won't come to an end. Social Security and Medicare recipients will have to tighten their belts a bit—and maybe start voting for candidates who offer real solutions to the budget issues in Washington.

Source:
Robert Veres, Inside Information
https://www.ssa.gov/oact/TR/2018/index.html

Financial Success…

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difficult to foresee, and many home buyers in the region ended up underwater. We chalked that one up largely to bad timing.

For some financial decisions, you don't have to rely on timing. You can even try more than one approach to see what works best for you. In a recent Wall Street Journal column, Dr. Shlomo Benartzi, a behavioral economist and professor at UCLA Anderson School of Management, suggests doing A/B testing for various aspects of our financial lives.

For example, are you better off looking at your portfolio daily, or is a quarterly check-in a better fit? If checking your accounts daily inspires ill-timed decisions, try limiting your views to once per quarter.

You can also test your reaction to retirement. Take an extended vacation and engage in some of the activities you think you will enjoy. Chances are, you'll find that golfing five days a week isn't what you envisioned. If so, maybe you need a different retirement plan.

Perhaps you are considering a vacation property (see related column). Try living in a home in your chosen community for several months. The house should be similar in size and character to the one you're looking to buy. Does the experience make you happy enough to make a major investment?

For stock investments, one technique we've encouraged over the years is blocking out market noise. That's easier said than done, we know. But it's hugely important. It requires that you establish a reasonable (not perfect, just reasonable) asset allocation and stick with it. You may adjust it over time, especially as you near and enter retirement, but adjustments should be subtle, led more by personal circumstances than market conditions.

Financial decisions should always be rational, informed by facts, not hunches. That means to make good investments, you need to get out of your own way. You may be really smart and believe you have a good sense of the market and naturally pick strong investments. Maybe so, but there are a lot of smart people out there doing the same thing, and many of them run their good sense right into the ground. More often than not, behavioral errors wreak more havoc on investment returns than poor market conditions.

What about using those newfangled investment products you've heard about? Often, they're sold by investment professionals. They purport to protect you on the downside while giving you all the upside you could ever want. Who wouldn't want that? Just remember, if something sounds too good to be true… well, you know the rest.

Most investment success can be attributed to a proper and disciplined investment mix, not individual investment selections. Sure, someone might claim to have a better mousetrap for a year, maybe two, but sustained outperformance is hard to achieve.

Instead, keep your tax and trading costs down and let the markets work for you. Playing by that rule alone will put you way ahead of the game.

- Mitch Conlon

Stat Bank

3.7…Percentage of American seniors who wait until age 70 to begin claiming their monthly Social Security checks.

(Social Security Administration)

64…Percentage of Americans surveyed in January 2018, who were either "somewhat" or "very confident" that they will have accumulated sufficient assets to sustain a comfortable retirement, up from 54% when the same survey was conducted in January 2009.

(EBRI Retirement Confidence Survey)

55…Percentage of world manufacturing done in four countries: China, the United States, Japan and Germany.

(United Nations Conference on Trade and Development)

43…Percentage of sales US companies in the S&P 500 received from foreign customers in 2016.

(S&P Global, Inc.)

3…The top American exports sold in 2017 to foreign buyers were aircraft, gasoline (and other refined petroleum products), and motor vehicles.

(Commerce Department)

81.4… The average life expectancy of a baby girl born in the US in 2017, compared to 76.4 for an American born baby boy.

(Social Security)

7.6…Percentage unemployment rate in Alaska through May, the highest in the nation. Hawaii has the lowest rate at 2.0%.

(Department of Labor)

45… In millions, the number of Americans with outstanding student loan debt, equal to the number of Americans receiving Social Security benefits.

(Social Security Trustees Report 2018)

Finding

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Vacation Home...

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Of course, owning a vacation property has its pluses. My siblings and families have spent some of our best vacations at a Puget Sound beach cabin my parents bought nearly sixty years ago. I'm sure many of you have had similar experiences.

But you should always balance the emotional tug of a vacation home against dollars and cents. We have talked through this process with many of you, exploring your spending capacity from several angles.

One angle involves looking at your travel choices. If you could afford another $20,000 per year for discretionary travel, versus spending it on a mortgage and other expenses of a vacation property, which would you choose? When we frame the decision that way, it often leads families into a deeper conversation about what is important to them. The ultimate answer is entirely personal, but always merits careful consideration.

Before you decide to leap into a vacation property, here are a few questions you should ask yourself:

What's the purpose of the property?

In our case, the allure of owning a second home was to have a place for family and friends to gather, share meals together, and explore. Note to self: *Sicily? Really?*

Location, lifestyle and family configuration matter a lot. If you're thinking of going far afield, spend a winter or summer in the area before you make up your mind. Consider who will be able to visit and who will not. Whimsy and impulse don't work with this important purchase.

Should you buy abroad?

You can sometimes get more bang for your buck in another country. But before you start shelling out pesos, learn about local property laws for ownership and making improvements. Pay attention to the political and social environment. Issues like personal safety, currency rates, and transportation may not matter much on a vacation, but they will gain importance once you own.

How will the property be titled?

Do you plan to take title in your name or co-own with other family members or friends?

It makes a big difference, especially if you plan to rent the place out. With multiple-party ownership, it may make sense to draw up an LLC and an operating agreement to establish rules, dole out rental income fairly, etc.

Who will inherit?

If estate taxes are a concern, you may want to put the property in a trust. With multi-party ownership, a next-generation transfer can become messy. Don't put off thinking about it until it's too late.

Owning a vacation home can be a real joy, but there are plenty of moving parts to consider. As with all big financial decisions, we encourage you to talk with us, and with your tax and legal counsel, before jumping in.

- Mitch Conlon

Save the Date!

Conlon Dart's Third Annual Speaker Series Coming Soon

Topics to be discussed this year include strategies for charitable giving and planning under the new tax law. We will be sending further information, including Guest Speaker bios in the coming weeks.

Date: October 10, 2018

Time: 11:30am-1:30pm

Location: Our First Floor Lobby Conference Room

Lunch included

RSVP to Kat Phan: kphan@conlondart.com