Fiduciary Insights

From The New York Capital Districts Leading Fee-Only Financial Planning, Tax Preparation and Asset Management Firm: Bill Jerome takes on the economy, the financial planning industry, and the stock market! Learn about our firm and how we take on financial issues that relate to you.

5 Jun

Retirement Tweaks

The following article by Bob Veres discusses the SECURE Act which will probably pass, and make a number of changes to retirement plans and planning.

While partisan politics rages everywhere in sight, the U.S. House of Representatives quietly—and nearly unanimously—passed a bill that would reform various aspects of America's retirement laws. The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) was approved by a 417-3 majority of legislators, and the Senate is expected to pass a similar bill by a similar margin in the fairly near future.

The bill contains 29 new provisions, including allowing people who work past age 70 to continue making IRA contributions while they're earning an income, and pushing out the start date to take required minimum distributions from IRAs or 401(k) plans from age 70 ½ to age 72. (The Senate version would push out the start date to when the IRA owner turns age 75.) The bill would also expand employers' ability to create 401(k) plans in conjunction with other (probably small) businesses, allowing them to share and therefore reduce costs.

Also: there would be a $500 tax credit to smaller employers who encourage automatic enrollment in their retirement plan. Studies show that employees save more under automatic enrollment than when they have to affirmatively opt in. The bill increases how much workers can have automatically deducted from their paychecks to go into the retirement account, from the current 10% to a proposed 15%.

Meanwhile, the bill decrees that all defined contribution plans (including 401(k)s) would be required to estimate how much income would be generated by each plan participant's current account value—though how, exactly that calculation would be made is still up in the air. Experts have plenty of questions about how this would even be possible. What return assumption would you make over the next 30 years? Over how many years would the income assumption be made for a 20-year-old staffer vs. somebody who's in her 50s?

Currently, there are a variety of reasons why people can start taking withdrawals from their IRAs before they reach age 59 ½, and the recently-passed legislation would add another one: a total of $5,000 could be distributed, without penalty, from the IRA or retirement plan if the owner experiences the birth or adoption of a child. (The distribution would need to take place within one year of the birth or adoption; otherwise there would be a tax penalty.)

The bill is not all good news. The SECURE Act would raise revenues by changing the rules regarding distributions from inherited IRAs. As the rules stand today, the amount that would have to be taken out could be spread out over the life expectancy of the heir—which, of course, allows people to stretch out the tax-deferral on inherited IRAs for decades. Under the new bill, most beneficiaries would have to take their money out over a 10-year period. (The Senate version of the bill would require any inherited IRA over $450,000 to be paid out over five years.) But the bill would exempt inheriting spouses and minor children from the provision.

Another part of the bill that may wind up being harmful was heavily lobbied for by the insurance industry: creating a safe harbor for plan sponsors to offer annuities inside their 401(k) plans. Companies that decide to offer annuities would be shielded from liability no matter how awful the annuity product they select (and there are quite a few that are pretty awful). Anybody who has seen the expensive, high-sales-commission products offered to teachers in 403(b) plans knows that there is great potential for harm with this aspect of the new bill.

All in all, the new bill is incremental rather than earth-shaking. Not many workers will be working or want to contribute to an IRA after age 70, but some will. Raising the age when people are required to take minimum distributions from their IRA by a year and a half is relatively minor, and making retirement plans easier to set up is good, but most companies have already done that work.

That staid, it is interesting that bipartisan legislation can still get done amid the hysteria going on between the Democrats and Republicans in the current Congress.

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- William C. Jerome, CFP®

10 May

Do You Own a Home in New York State?

Are you receiving your School Tax Relief Program (STAR) benefit as a reduction directly on your school tax bill or do you receive a rebate check in mail? If you are not receiving a check in the mail, then you need to switch or it could you cost money.

Starting this year, homeowners who do not switch from the reduction to the rebate check will miss out on any benefit increases up to 2%.

Also, if your income is more than $250,000, you must switch to the STAR credit to continue receiving your benefit.

To switch to the STAR credit:

1) Notify your assessor to withdraw from the STAR exemption program.

2) Register for the STAR Credit at: https://www.tax.ny.gov/pit/property/star/default.htm

- Christine Polsinelli
Senior Financial Planner

28 Jan

There is Unusual Activity in Your Account!

So far in 2019, I've received variations of this email from four different banks. Chase sent me an 'unusual activity detected' email as well as a 'Notification' from Chase Online. I also got a notice of Irregular Activity at BB&T bank, a notice of Unusual Activity on my Wells Debit card, and I'm frequently getting them from Bank of America, which is not surprising since it has one of the largest numbers of customers.

These are all fake 'phishing' emails, trying to get me to click on a link (to download some sort of bad software to my machine, such as ransomware or a program to send my passwords to a hacker), and/or an attempt to get me to provide account numbers, passwords, social security data, etc.

How do I know? One good indicator is that the emails don't actually come from the banks; the addresses are such things as Wells Debit Card <securewells4xx(at)charter.net) (the xx replaces some numbers) which is really a web site of x.co/numbers. The best indicator that these are fake, though, is that I don't have any relationships with any of these banks; I'm not their customer. However, the scammers hope to get lucky and send them to a person who actually IS a customer of these banks, and lure them in with an issue that worries them, like, Unusual Activity in their accounts.

What should you do?

If you get an email purporting to be from your bank, you should contact the bank. However, DON’T USE ANYTHING FROM THE EMAIL! Don’t click on any links, and don’t call any phone numbers they provide. You should have a customer service number for your bank, typically on the back of your credit card or on an account statement. Call them (don’t email!) and ask about the email you received. If it is a scam, they may ask you to forward it to their security people; I’ve done this with a few of the above examples. Some banks don’t offer an email for reporting scams.

- William C. Jerome, CFP®

6 Dec

What’s Wrong with the Stock Market? Part II

In one word, nothing. Still. Fundamentally the stock market goes down when more people sell than buy. Most of these people have personal reasons for doing their trading, yet the market analysts feel compelled to find a reason.

The reason today is the ‘inverted yield curve’, meaning that in this case the yield on the 5 year Treasury was briefly lower than the 2 year Treasury. (Normally, the longer the time to maturity, the higher the interest rate, as compensation for the greater risk).

This is nonsense. First, the historic indicator that has shown some accuracy is the 10 year Treasury vs. the 2 year Treasury. Second, many times this indicator has been very close to inverting but has not inverted with no ill effects. Most importantly however, I think the indicator is broken.

Historically lower long term yields showed a pessimism about the long term growth of the economy. This assumes a free flowing capital market where assets are priced based on the buying and selling of individuals and corporations. However, since 2009 we have not had a free capital market, but a bond market forced lower by the buying of central banks throughout the world. Prior to 2009, central banks did not buy securities on the markets to manipulate those markets. I think the count of central banks forcing interest rates down by buying securities, known as ‘quantitative easing’ is in the mid-thirties.

Meanwhile, the economy is doing just fine. Today’s unemployment rate from 8:30 this morning is still 3.7%, and employment opportunities are still good. 2019 is predicted to show slower corporate earnings, but we are talking about going from the current year-over-year increase in the mid 20% range down to around 9%-10%. This is definitely slower, but also definitely NOT a recession.

Ultimately the stock market will recover from its current slide, and rebound to new highs, as it always does.

- William C. Jerome, CFP®

21 Nov

What’s Wrong with the Stock Market?

In one word, nothing. Think of the economy as a supertanker, plowing along through the ocean, and the stock market is a guy on water skis, being towed behind the supertanker with a really long rope. The stock market skier might zig to the up side for a while, or the down side for a while, but eventually the skier (stock market) is going to go where the economy (supertanker) is going.

So, where is the economy going? Earnings this year are up in roughly the 20% range, and are projected to grow another 9% next year. Inflation remains relatively low. There are always things to worry about, but none of them are likely to lead us into a recession in the next year or so. GDP growth may slow to 2.5%, but it is very unlikely to go negative in the next few years.

The Federal Reserve raising interest rates is one worry, but rates have been too low for too long and we need to get back to something more normal, like a 3% or 3.5% range. Keeping interest rates too low artificially makes it hard for the debt markets to function in an orderly manner. While higher interest rates normally provide competition for the investment dollar, I don’t see a 3.5% fed funds rate as something that would hurt the economy next year.

Tariffs are another concern. The issues with Mexico and Canada have been resolved, more or less, so the big concern is China. This dispute is not so much about trade as it is about China illegally acquiring technology. I don’t see this being resolved soon, as President Xi has had himself made president for life, whereas in the U.S. elections will lead to changes in 2 or 6 years and he can probably afford to wait. However, tariffs and the trade deficit are issues costing China a lot of money, so they will at least appear to yield on these fronts, and the market will stop worrying about them.

In September the stock market was considered too high, and now it’s considered to be falling forever. It’s really just a skier zigzagging behind a really big, and growing nicely, ship. So ultimately the stock market will recover from its current slide, and rebound to new highs, as it always does.

- William C. Jerome, CFP®

5 Nov

Higher 2019 Retirement Plan Contribution Limits and More

Change seems to be occurring all over the place these days. The Treasury Department recently decided to get in on the action when it announced 2019 inflation-adjusted figures for various types of retirement savings accounts and for health savings accounts. With the new limits, you should first familiarize yourself with them and then examine your cash flow to establish a financial plan for next year.

Below is a quick recap of the new limits; see IRS Notice 2018-83 for further guidance.

Employer-sponsored plans

For the 2019, the annual contribution limit for employees is $19,000 – previously $18,500. However, the catch-up contribution limit for those over 50 remains an additional $6,000.

IRA plans

You can put up to $6,000 into an Individual Retirement Account (pretax or Roth or a combination) for 2019. The catch-up contribution limit remains an additional $1,000.

SEP IRAs and Solo 401(k)s

If you are self-employed or a small business owner, the amount you can contribute goes up from $55,000 in 2018 to $56,000 in 2019. Keep in mind this is based on the amount you can contribute as an employer, as a percentage of your salary.

Health savings accounts

The 2019 annual HSA contribution limit for individuals with single medical coverage is $3,500 – up $50 from 2018. The limit is $7,000 for those covered under qualifying family plans – up $100 from 2018. If you are 55 or older in 2019, you can contribute an additional $1,000 annually, or $4,500 total to an HSA for singles and $8,000 for families.

Roth IRA Phase-Outs

In 2019 you can even earn a little more and still be eligible for a Roth contribution. See the table below for the phase-outs:

Filing Status	2018 Phase-Out	2019 Phase-Out
Single/Head of Household	$120,000 to $135,000	$122,000 to $137,000
Married Filing Jointly	$189,000 to $199,000	$193,000 to $203,000

To get a complete picture of all the higher limits for retirement savings accounts and how to best plan for them, be sure to contact your financial advisor. If you don't have a financial advisor, give us a call!

5 Sep

The Stock Market is at New Highs!

Or is it? If we look at the S&P 500 index, for example, it closed last Friday (8/31/18) at 2901.52, which puts it very close to it's previous all time high in January. Is this a problem, a sign of a market at a peak and destined to fall?

In a word, No.

Back in January, the forward estimated price-to-earnings (P/E) was about 20, whereas now it is about 17. The price-to-earnings ratio is probably the most common measurement of the value of a stock; how many dollars do you pay to own enough shares of a company to earn a dollar. The higher the P/E, the more expensive the stock is. The long term average P/E is around 16. The 'forward estimated' part comes from the stock market's habit of trying to look into the future, and not worry much about the past. So this statistic certainly has some room for error to it, but it does focus on the area most important to investors.

The reason for the big drop in the P/E is a dramatic increase in the total earnings of the 500 companies in the index. Some people have argued that this is just a bookkeeping increase caused by the recent lowering of corporate tax rates, but sales are also up by 10% over the same time period. The tax rates don't just help profits immediately, they also allow companies to spend more on capital improvements, worker benefits, dividends, reducing debt and so on, which as a whole improves the economy for everyone. The earnings growth is real.

What are the risks? Tariffs are certainly one of them, but our international trade is not a big part of our country's economy. It seems likely that since no one really wants a trade war, eventually these problems will be resolved (and potentially in a way that increases the benefits of trade for the U.S. economy). Politics is even less of a risk, in my opinion. Dramatic reductions in regulations have contributed to the earnings explosion, and rolling them back is so obviously a bad idea that I don't believe that will happen. Undoing the tax cuts would probably be bad for the economy, but again I think this is so clearly bad that it won't happen. The November election and the rhetoric of the winners, whoever they are, will give us early insight into whether this would be a problem for the economy, and hence the stock market, in 2019.

- William C. Jerome, CFP®

6 Feb

I Feel Better, Part II

We finally got our 10% correction; from the high in late January to the interday low today, the Dow Jones Industrial Average is down 10.6%. Today the stock market has bounced around quite a bit, but at this particular instant in time, we are right around break even for today. Will the market drop again? I don't know, although I suspect the drop is over, but I'm mostly going on how it feels and that is as unreliable as it sounds.

Here is what I do know. In today's *Wall Street Journal* the index of nonmanufacturing activity, which tracks health care, finance, construction, and agriculture, rose to 59.9 in January from 56 in December. This is a 1 to 100 scale, with anything over 50 representing growth, and much better than the forecast of 56.5. This is another example of economic data showing a strengthening economy, and helping to support the idea that the recent stock market sell off is a counterpoint to the tremendous rise in the stock market over the last six weeks or so. The new orders component was up to 62.7 from a reading of 54.5 in December, and the employment component hit 61.6, the highest reading on record.

The recent selloff is notable mostly in it's absence since the election, and given the strong economic data which make an impending recession unlikely, this event should be ignored by anyone who is a long term investor.

- William C. Jerome, CFP®

5 Feb

Well, I Feel Better

We finally had a decent drop on Friday (2.5%). Today (Monday Feb. 5) the futures market before the open had the DJIA down over 200 points, but it seems to be recovering. The market had been rising at an accelerating rate, which can end with a huge drop. Seeing a down turn means we are back to a more normal market, with ups and downs; If we had opened down 230 points, the DJIA (Dow Jones Industrial Average) would have been off 5% from it's high, which is barely noticeable in the market's history. Regardless of whether you found the sharp rise in January scary (as I did), or the selloff on Friday scary, neither one is a reason to change your strategy. They are just the normal wave action on top of the rising ocean tide.

The markets have changed a lot in the last decade; if you go back into the last century, on average the stock market saw a 10% correction every two and a half years. Yesterday's correction took us down more than 3% from the most recent high, ending a 311 day streak going back to November 7, 2016.

What is astounding is the lack of volatility over that time frame.

What triggered Friday's 2.5% sell off was the employment report, which included 200,000 new jobs, a jobless rate staying at 4.1%, and (most damaging in some eyes) an increase in average hourly earnings of 2.9% from the same period last year. The thinking is that this predicts a rapid increase in inflation which will hurt the economy, the stock market, and the bond market.

Some reasons not to be alarmed are, first, that on the first of the year, 18 states had higher minimum wages. A number of companies have announced one time bonuses and higher wages starting in January. Finally back to some basics, the economy is showing a resurgence in housing and factory activity which together combined for 50,000 of those new jobs. A gain of 2.9% looks reasonable in light of these special one time items, and not a precursor of a dramatic increase in wages.

My thinking is that we were way over due for some sort of correction, and we are in it now. I don't expect it to last long, and I don't expect a bear market this year (usually defined as a 20% drop) unless something terrible happens outside of the economy, such as a trade war or a real war. Meanwhile the best course of action is to do nothing, unless you were going to buy something in which case now might be the time.

- William C. Jerome, CFP®

12 Dec

Mini-Tenders Usually a Scam

A tender offer is an offer to buy shares of a company at a particular price for a time period with a particular ending. For example a tender offer might be an offer to buy shares of XXX company at a price of $25 per share between now and the end of the year. If XXX is currently trading at $19 then this is a great deal. A company might make a tender offer for shares in another company in order to buy it, or they might make a tender offer for their own shares in order to reduce the share count, use some capital, and/or drive the price up. A mini-tender is an offer made for a small portion of the existing shares, defined by the SEC as less than 5% of the outstanding shares.

Recently a client received such an offer for shares of Thermo Fisher, at a price of $181.75. At the time the stock was trading for around $190. Obviously tendering the shares at the lower price would be a bad idea; why tender the shares when you could sell them for more? The entity making the offer, in this case a company called TRC Capital Corporation, is hoping that some shareholders will not look up the current price, and tender their shares, which TRC can then sell for a profit. The investor loses out. Don't fall for this! Check the price!

Thermo Fisher Scientific issued a press release about it, here.

The SEC has an investor article about the subject, here.

- William C. Jerome, CFP®

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