First Fiduciary Investment Counsel, Inc.

Investment INSIGHTS

September 2017 | *Building Wealth Through Disciplined Investing*

Is It Time To Time The Market?

Mary F. Anderson, CFA
President
Portfolio Manager
mary@firstfiduciary.com

William S. Henry
Chief Operating Officer
Portfolio Manager
bill@firstfiduciary.com

Andrew J. Givens, CFA
Senior Analyst
andrew@firstfiduciary.com

Buy low and sell high. This advice sounds simple enough. And with the S&P 500 touching all-time highs, the temptation to sell can be overwhelming for some. But is attempting to time the market really a sound approach for investors?

Have to be right twice

Investors who sell their holdings when they believe the market is overvalued have to do more than be correct on their decision to sell. They must also successfully re-enter the market at some future date. When the market has sold off in the past, historically, it has rebounded to higher levels. If an investor is not prescient, he may end up re-buying at even higher prices, missing out on important gains.

Lost income

Since 1900, dividends have contributed ~47% of the total return of the S&P 500. By exiting the market, investors forgo this important source of investment return. Additionally, investors who rely on dividends for income may be forced to draw down principal when they are out of the market, increasing the chance their wealth does not last. According to Senior Analyst Andrew Givens, dividends are an integral part of First Fiduciary's strategy. "We like dividend-paying stocks for their reliable stream of income and the insulation they provide during market downturns."

Taxes

A taxable investor will owe tax on any capital gains realized upon selling a security. The federal tax rate on such gains ranges from 10% to 43.4% in the United States. By not selling, investors can defer this tax liability indefinitely. As Warren Buffett pointed out, "In economic terms, the liability represents an interest-free loan from the U.S. Treasury." Effectively leveraging this "loan" is a powerful way to augment investment returns over a very long time period.

Chief Operating Officer Bill Henry further outlines First Fiduciary's process: "We at First Fiduciary are not market timers. We believe in the benefits of staying invested for the long-term. Rather than make rash wholesale changes to portfolios, we evaluate each stock on an individual basis. We would consider selling a position if we determine that a company's shares no longer offer the potential for satisfactory returns or we find better opportunities elsewhere. It is this level of discipline that has allowed us to deliver solid returns through many market cycles."

First Fiduciary Investment Counsel

Throughout our history, First Fiduciary has successfully pursued one goal: to provide our clients with peace of mind while generating superior long-term growth of their assets.

Founded in 1975, First Fiduciary was established on the same principles that remain at the core of our strategy today. By building portfolios designed to achieve the best balance between risk and opportunity, we deliver disciplined asset management solutions to our clients.

First Fiduciary's Form ADV Part 2 is available upon request.

Don't Let Rising Interest Rates Catch You By Surprise

The Federal Reserve doesn't directly control consumer interest rates, but changes to the federal funds rate (which is the rate banks use to lend funds to each other overnight within the Federal Reserve system) often affect consumer borrowing costs. Forms of consumer credit that charge variable interest rates are especially vulnerable, including adjustable rate mortgages (ARMs), most credit cards, and certain private student loans. Variable interest rates are often tied to a benchmark (an index) such as the U.S. prime rate or the London Interbank Offered Rate (LIBOR), which typically goes up when the federal funds rate increases.

After years of artificially low interest rates since the 2008 financial crisis, the Fed now expects to raise the federal funds rate by small increments over the next several years. However, you still have time to act before any interest rate hikes significantly affect your finances.

Adjustable rate mortgages (ARMs)

If you have an ARM, your interest rate and monthly payment may adjust at certain intervals. For example, if you have a 5/1 ARM, your initial interest rate is fixed for five years, but then can change every year if the underlying index goes up or down. Your loan documents will spell out which index your ARM tracks, the date your interest rate and payment may adjust, and by how much. ARM rates and payments have caps that limit the amount by which interest rates and payments can change over time. Refinancing into a fixed rate mortgage is an option if you're concerned about steadily climbing interest rates; however, this move may not be cost-effective if you plan to sell your home before the interest rate adjusts.

Credit cards

It's always a good idea to control credit card debt, but it's especially important when interest rates are trending upward. Many credit cards have variable annual percentage rates (APRs) that are tied to an index (typically the prime rate). When the prime rate goes up, the card's APR will also increase.

Check your credit card statement to see what APR you're currently paying. If you're carrying a balance, how much is your monthly finance charge?

Your credit card issuer must give you written notice at least 45 days in advance of any rate change, so you have a little time to reduce or pay off your balance. If it's not possible to pay off your credit card debt quickly, you may want to look for alternatives. One option is to transfer your balance to a card that offers a 0% promotional rate for a set period of time (such as 18 months). But watch out for transaction or other fees, and find out what APR applies after the promotional rate term expires.

Variable rate student loans

Interest rates on federal student loans are always fixed (and so is the monthly payment). But if you have a variable rate student loan from a private lender, the size of your monthly payment may increase as the federal funds rate rises, potentially putting a dent in your budget. Variable student loan interest rates are generally pegged to the prime rate or LIBOR. Because repayment occurs over a number of years, multiple rate hikes for variable rate loans could significantly affect the amount you'll need to repay. Review your loan documents to find out how the interest rate is calculated, how often your payment might adjust, and whether the interest rate is capped.

Because interest rates are generally lower for variable rate loans, your monthly payment may be manageable, and you may be able to handle fluctuations. However, if your repayment term is long and you want to lock in your payment, you may consider refinancing into a fixed rate loan. Make sure to carefully compare the costs and benefits of each option before refinancing.

Estate Tax Reform On The Way?

President Trump has vowed to upend the estate tax as part of his broader plan for tax reform. While likely to be a popular measure (who wouldn't want to keep more money in the family), should the estate tax be a priority?

Very few citizens pay the estate tax

As noted in Barron's, only about 5,000 fortunes of the nearly 3 million Americans who die each year actually get hit with the estate tax. The single biggest reason for this is that only 0.2% of all people who die actually leave an estate large enough to be taxed. Currently, estates under $5.49 million (or $11 million for married couples) are exempt from paying the estate tax. This exemption grows each year because it is indexed for inflation.

For those estates who are not exempt, most have devised a strategy to minimize or avoid the tax altogether, which could include an irrevocable grantor or other trust, or even clever gifting strategies. It is only in those rare instances when a very wealthy person dies without a will does the estate feel the full brunt of the tax.

Not much money is up for grabs

Economists estimate that over $30 trillion of wealth will be passed down in the next few decades. As it currently stands, the federal government can capture only about $20 billion annually, or less than 1%. As a point of reference, that is less than the amount of federal tax generated from the sale of alcohol and tobacco.

Fear of the unknown

While it is certainly tempting to want to eliminate the federal estate tax, the truth is that any alternative may be worse. Since the tax is so rarely applicable and in most cases easily avoided, most individuals will not be impacted.

We at First Fiduciary realize the challenges that exist when it comes to estate planning and advise clients to seek our advice to enhance their planning needs.

Are You Ready To Retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It may be obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off your retirement savings. According to the National Center for Health Statistics, the average American can expect to live past age 78. With future medical advances likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can receive Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

The longer you delay retirement, the longer you can build up tax-deferred funds in traditional IRAs and potentially tax-free funds in Roth IRAs. Remember that you need taxable compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer-sponsored plans like 401(k)s — and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or an individual policy from a private insurer or the health insurance marketplace — which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income while remaining active and productive.

First Fiduciary President Mary Anderson offers her thoughts: "For those considering retirement, we are able to develop individualized financial plans that can provide valuable insights to assist in making this important decision."

The Health-Wealth Connection

It's a vicious cycle: Money is one of the greatest causes of stress, prolonged stress can lead to serious health issues, and health issues often result in yet more financial struggles. The clear connection between health and wealth is why it's so important to develop and maintain lifelong plans to manage both.

The big picture

Consider the following statistics:

1. More than 20% of Americans say they have either considered skipping or skipped going to the doctor due to financial worries. (American Psychological Association, 2015)

2. More than half of retirees who retired earlier than planned did so because of their own health issues or to care for a family member. (Employee Benefit Research Institute, 2017)

3. Chronic diseases such as heart disease, type 2 diabetes, obesity, and arthritis are among the most common, costly, and *manageable* of all health problems. (Centers for Disease Control and Prevention, 2017)

4. Chronic conditions make you more likely to need long-term care, which can cost anywhere from $21 per hour for a home health aide to more than $6,000 a month for a nursing home. (Department of Health and Human Services, 2017)

5. A 65-year-old married couple on Medicare with median prescription drug costs would need about $265,000 to have a 90% chance of covering their medical expenses in retirement. (Employee Benefit Research Institute, 2017)

Develop a plan for long-term health ...

The recommendations for living a healthy lifestyle are fairly straightforward: eat right, exercise regularly, don't smoke or engage in other risky behaviors, limit soda and alcohol consumption, get enough sleep (at least seven hours for most adults), and manage stress. Before embarking on any new health-related endeavor, talk to your doctor, especially if you haven't received a physical exam within the past year. Your doctor will benchmark important information such as your current weight and risk factors for developing chronic disease. Come to the appointment prepared to share your family's medical history, be honest about your daily habits, and set goals with your doctor.

Other specific tips from the Department of Health and Human Services include:

Nutrition: Current nutritional guidelines call for eating a variety of vegetables and whole fruits; whole grains; low-fat dairy; a wide variety of protein sources including lean meats, fish, eggs, legumes, and nuts; and healthy oils. Some medical professionals are hailing the long-term benefits of the so-called "Mediterranean diet." Details for a basic healthy diet and the Mediterranean diet can be found at health.gov/dietaryguidelines.

Exercise: Any physical activity is better than none. Inactive adults can achieve some health benefits from as little as 60 minutes of moderate-intensity aerobic activity per week. However, the ideal target is at least 150 minutes of moderate-intensity or 75 minutes of high-intensity workouts per week. For more information, visit health.gov/paguidelines.

... and long-term wealth

The recommendations for living a financially healthy life aren't quite as straightforward because they depend so much on your individual circumstances. But there are a few basic principles to ponder:

Emergency savings: The amount you need can vary depending on whether you're single or married, self-employed or work for an organization (and if that organization is a risky startup or an established entity). Typical recommendations range from three months' to a year's worth of expenses.

Retirement savings: A good rule of thumb is to save 15% of your income toward retirement, including any employer contributions. If this seems like a lofty goal, bear in mind that as with exercise, any activity is better than none — setting aside even a few dollars per pay period can lead to good financial habits. Consider starting small and then increasing your contributions as your financial circumstances improve.

Health savings accounts: These tax-advantaged accounts are designed to help those with high-deductible health plans set aside money specifically for medical expenses. If you have access to an HSA at work, consider the potential benefits of using it to help save for health expenses.

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