Spring 2019 Edition

The Ultimate Guide for the Successful Steward

Welcome to the Spring Edition of *The Ultimate Guide For the Successful Steward,* Fourth Dimension Financial Group's newsletter.

It's a running joke in our office that I can't resist an opportunity to talk about how much I love spring. Therefore, I won't tell you how much I love spring. I just won't do it here. That said, here we are. As I sit down to gather my thoughts I'm reminded of a few obvious realities: life moves fast and we're powerless to it.

I went to college at Bowling Green State University. If you've spent much time on that campus you know how windy and bitterly cold it can get during the winter. In fact, there's a corridor between the library and the old art building that was affectionately called 'the wind tunnel'. So when winter hit at BGSU, it HIT. I'm shocked that one of my most vivid memories of being on campus was a day that followed a long, hard winter. I was walking to class and was instantly overwhelmed by the feeling of…nothing. I took my coat off so that I only had on a t-shirt and what I felt was nothing. The air was finally warm enough that it didn't feel cold on my skin. It was the most stunning sign of spring that I'd ever felt and it was silly how normal and uneventful it really was. Yet there I was, feeling like I'd never felt comfortable in my entire life until that moment. It was perfect.

As I consider what a successful retirement looks like, I'm hoping that it feels like that spring day on BGSU's campus. I hope you have moments when you feel so comfortable, and the day feels so uneventful, that it's perfect. Sure, nothing in life is perfect, but that moment when you're safe and secure enough in your planning that you're able to bask in the peace of it all, free from worry or regret, I hope you get to that place every now and then. And I hope we can help you get to that place. That's why I do what I do, so that you can feel that feeling.

This edition of the Steward brings you several helpful articles. Richard Chamberlain highlights the 'why' behind estate planning, specifically the reasons for planning at all. Investment guru, Stephen Hanley, takes a look back to try to see ahead at what the markets may have to offer in 2019 and beyond. In the Briefcase Study, we look at a Social Security strategy called 'Reversing the Tax Torpedo' and in Back to the Basics, we address the question surrounding when to retire. We hope each of these topics sheds some light on the art and science of both getting to retirement and staying retired.

The Steward does not happen without you. Sure, it's being delivered to your home and for your benefit, but without your support of the work we do we'd have no reason to carry out any of our mission. So thanks for what you do so that we can do what we do. Enjoy spring just as I do, but I won't mention that here. It'll be our little secret.

All the best,

Adam B. Cufr, RICP®

Josie and I enjoyed her big sister's first track meet in the sun!

Back To The Basics: Seven Factors in Determining Retirement Age

Retirement means something a bit different to everyone. To some, it's a financial finish line. To others, retirement represents a transition from paid work to volunteer work. Whatever it means to you and those close to you, retirement happens, whether by choice or by force.

As a person nears 'retirement age' a litany of decisions arise that must be carefully considered before making major retirement planning choices. Numbers, as it turns out, are just one of many factors. Here we'll touch on seven factors to consider when determining the retirement age that may be right for you or a loved one.

1. Financial
Of course the financial realities of one's life have a huge impact on retirement. After all, retirement from paid work or financial retirement (continuing to work after financial independence has been reached) both require adequate sources of income to meet living expenses. It is here where Social Security claiming decisions, pension decisions, investment income planning, annuity funding, IRA distribution planning, etc. must be built into a holistic and comprehensive strategy. For many, the main question is simply this: "Do we have enough money to retire?"

2. Physical
All the money in the world can't fix a bad back or a degenerative disease. The physical realities of aging eventually push all of us from the workforce. Considering one's frailty and family history may prompt an earlier retirement in order to reduce the demands of daily work. Alternatively, family longevity may cause others to stay at work for many more years. These factors can have a major impact on retirement choices.

3. Psychological
The pace of many careers has intensified. For some who may have imagined remaining in their career past retirement age, the demands of vocational change may be daunting and stressful. Considering staying on for a few more years may be enough to inspire serious doubt about how long this can continue and remain sane. Have you ever had one of those weeks when you thought you might just lose it? Maybe one of those years? It's important to give psychological factors the attention they deserve. After all, quality of life may become more compelling than quantity of stuff.

4. Social
This can go either way. If your five closest friends are preparing to retire this year and you're not, social pressures may begin to mount. Conversely, being the only one of your circle of friends who is retired can lead to some awfully lonely Wednesday afternoons in front of the TV. Over the years, we often lockstep with those closest to us. When it comes to retirement time, social factors cannot be ignored and can either make retirement decisions more fun or simply lead to greater isolation from friends.

5. Spiritual

Different faiths have different views on what retirement means. Coming to terms with what you truly believe about your role in the world, in your family, and in the community may very well have an impact on how you choose to address retirement and financial independence. Have you ever stopped to ask yourself "What do I believe about retirement?"

6. Personal

Beyond money, the personal decisions surrounding retirement often receive the most press. Does retirement mean golf to you? Maybe retirement equals travel or time spent with the grand kids. This is the time to take inventory of your list of things you want to do with the time you have left. A common challenge for retirees results when they have not done the same amount of planning about their retirement than they did to get to retirement. It's like planning for months to take a trip only to jump in the car and realize that you forgot to choose the trip's destination. Now what?

It's also very common for business owners to pour every ounce of themselves into their business while neglecting the rest of their life. When they receive an offer to buy the business, allowing them to retire, they suddenly realize that they have nothing to retire to.

7. Familial

Although wonderful fodder for jokes, when one spouse plans to retire years before the other is ready, strange things happen. This is a time when having many deliberate discussions with your spouse can begin to clear up misunderstandings and lack of clarity concerning what retirement is and what it should look like – for you.

Ultimately, retirement planning is most often discussed as a mathematical and financial event. Certainly, the numbers need to be right and competent retirement planning counsel should be sought out to ensure it is done properly. If it begins to feel like it's all about the numbers, it may be time to step back and take a broader view. After all, do-overs during retirement can be frustrating and expensive.

Let's try to get this right the first time, shall we?

Looking Back to 2018 to Set the Tone for the Remainder of 2019 and Beyond

After all the ups and downs of 2018, the US Stock market, as represented by the Wilshire 5000 index, ended the year down -7.13%. Less risky bonds, as represented by the Barclays Capital Aggregate Bond Index, declined -0.18%. Since the year-end, the markets have been in recovery mode and moving up nicely with the US Stock market, gaining over 16.5% so far year to date (1-1-2019 to 4-9-2019).

When we reflect on the ups and downs of the stock market in 2018, nothing really surprised us. During our 2018 outlook letter, we warned that volatility would certainly pick up on the weight of interest rates, government spending, taxes, and trade policy. Then, on December 21st we addressed the decline in a special market update and explained how we believed the worst was likely over, and the near term future looked bright. This outlook has proven fully accurate thus far as markets have rebounded very aggressively since that December 24th low point.

So what does all of this really mean?

Not much, really. I suppose you could say our crystal ball was working well and we had good insight, but the simple truth is that markets are designed to rebound. Temporary declines after major run-ups are a normal and healthy part of the investment process. 2018 was a good reminder about the volatility markets can - and will - experience from time to time. However, when we take a step back and place 2018 in a greater context of history, the current fundamentals, the year's events did little to surprise or change our thinking. The US Stock Market has gained over 150% during the past 20 years, 869% during the past 30 years, and 3,270% during the past 50 years. Current unemployment remains low, interest rates will remain reasonable, and the economy is still growing; all reasons that we felt the recent declines would be somewhat short-lived, and ultimately provide opportunity. With 2018 behind us, and markets/accounts again approaching high-water marks, here are our thoughts on 2019.

2019 Outlook

As a general rule, we are not big fans of giving market outlooks. Our view is simple: markets for securities are inherently volatile and capricious. Some days, weeks, months, and years, they go up and in others, down. The market is like a giant scale that constantly weighs information but can take years for the scale to accurately settle. Over 10, 20, and 30 year periods, the market will reflect the compounded profit and interest in a very effective manner, but the short-run is extremely unpredictable. Allowing the wonder of time and interest to work in your favor is the greatest advantage investors hold. Making sure we own companies with strong balance sheets and business models are the second great advantage we hold.

This does not mean we should ignore market activity. We aim to capitalize on short-term inefficiency created from the market bouncing around to capture and enhance the long-term effects of compound interest. Our job, in short, is to always keep emotion away and allow compounded interest to work its magic while constantly looking for small enhancements created from short-term volatility. With this opportunity-seeking mindset, we move forward with our 2019 outlook.

Economic Movement

• *Federal Reserve Interest Rate Policy and US/China Trade Policy* will likely drive short-term movements and potentially set some long-term fundamentals.

It should be no surprise that the 2 major issues are interest rates and China trade policy. Rising interest rates are a wealth stripping effect. Loans become more costly, thus homes are more expensive, and investments less valuable. The other issue with rising rates has become the US Dollar. As rates rise faster to other countries than the US, the Dollar generally strengthens relative to the alternative currency. For example, in 2014 it cost about 6 Chinese Yuan to buy 1 US Dollar. Today, it costs around 6.76, which represents a 13% currency cost increase. This generally results in either fewer products being sold to China OR lower prices to offset the currency change. When you think about the amount of revenue companies generate internationally, a 10-20% decrease in sales or revenue can be a bit of a headwind to growth. We believe this global trade imbalance when coupled with the China trade tensions is making the Federal Reserve very nervous. We have already seen some cracks appear in the ISM Manufacturing index with a 4.5% decrease in December. Thankfully we saw a 4.2% bounce in January. While this is not overly concerning, the recent volatility may keep the FED from hiking rates too aggressively. Stable rate policy and stable trade would remove two of the biggest uncertainties of 2018 and possibly set some longer-term fundamentals in place that would serve as a tailwind for the economy. Thus far, the stock market seems to be expecting both of these outcomes. Confirmation would be a much-needed boost to the economy and markets.

Other elements of caution include fiscal tensions, corporate debt quality, age of expansion, consumer-spending habits, among others. These items currently pale in comparison to the rate and global trade policies discussed above.

Investment Valuation

Investments are generally valued relative to future earnings potential. You buy an investment for a future earnings/profits stream. Therefore, the valuation equation is comprised of 3 main thoughts. Will the earnings stream grow/shrink? What is the security of the earnings stream long term? What are my alternative choices? If you buy a rental property you will likely consider the earnings produced by rental income relative to price, the security of the renter to keep paying, and the ability for the property to appreciate and drive higher rents or a sale. Stock and Bond valuation is not much different. We must consider the earnings today relative to price levels, earnings in the future and our alternative choices. In aggregate, the S&P 500 earnings yield was 4.47% as of year-end 2018. The future projected 5-year earnings growth is around 9.82% (Y-Charts Data). When compared to alternative choices such as bonds and cash… stocks still appear the most attractive long term. 4.47% is much higher than a 10-year bond at 2.66% or savings rate at less than 1.50%. In addition, companies offer the potential for growing the earnings stream over the next 5-10 years, making stocks the obvious current favorite long term. In short, stocks still seem like the best choice long term, but we do not see them as significantly cheap nor do we feel they are overvalued.

Investment Expectations – Future Rates are Key

In 2018 we saw the effects of higher rates on stocks. As rates rise, the attractiveness of bonds as an alternative asset improves. At some point, investors are willing to take a little less return for the lower risk and certainty a bond offers. 2018 volatility was somewhat sparked by the battle between future alternatives. The idea that pretty soon an investor could get a 4% 10-year bond with very low risk gave stock investors reason to pause. As rates increase, the valuation and future potential of stocks will decline. If rates such as the 10-year yield stay below 3%, we believe the long term outlook for stocks is favorable and would not be surprised with a possible 6-8% US equity return over the next 5 years. If the Federal Reserve decides to pressure rates significantly higher, then we would expect closer to a 5% US equity return rate. Most likely we will see a slow move up in rates, an eventual recession, a reaction to lower rates and a solid market rebound over the next 5 years. History would lead us to believe the FED will likely push the envelope of rate hikes a bit too far, the economy will gradually slow down and a recession will take place. As the data of a recession hits, the FED will reverse course and likely cut rates to stimulate the economy once again. Our original base case scenario projected a likelihood of a recession in late 2019 / early 2020. However, the recent language of the FED has given us a sliver of hope that perhaps they have realized the folly of hiking rates, given the global economic uncertainty that currently exists. If, in fact, they decide to slow or stop hikes, we could see the bull market cycle extended. This is a good example of why we never time the markets. Things well beyond our control can really add to optimism or pessimism in quick order. We believe having a solid plan, focusing long term and being opportunistic will result in long term returns very satisfying to the investor's needs.

Stephen L. Hanley,
Investment Strategist
Evergreen Wealth Management

Investment Action – Stay the Course

Everything mentioned above is a normal and healthy part of business cycles. The labor markets worldwide remain near all-time low unemployment. Interest rates are increasing and monetary policy is tightening. At some point, the weight of higher rates and reduced labor force capacity will tip the economic scales and reverse the cycle. Companies will need to start laying off employees to keep meeting profit expectations, they will stop issuing bonds for expansion, consumers will slow spending, profits will decrease and a recession will begin. As markets react, the opportunity will become obvious. We will have a chance to buy some wonderful companies at great prices. The cycle will stabilize, rates will decrease in response to less supply of bonds, homes will become cheaper to buy, consumers will start to spend again, companies will see profits and the recession ends. This cycle has played out many times and we are prepared to use the cycle to our advantage. Those who have a healthy understanding and emotional control stand ready to take advantage of opportunities. We have experienced a tremendous run-up in all accounts over the past 10 years. We are positioning in strong companies that will weather the next storm as we wait for the cycle to play out. We never know when the scale will tip, and desire all the upside we can get while the sun shines, but are well prepared to take advantage should the tide go out.

Conclusion

We remain cautiously optimistic, with an understanding that variables well beyond our control can play a large role in temporary results. Most importantly, we remain confident in the market over the long term (5, 10, 15+ years) and the ability for stocks and bonds to keep producing solid long-term results that can meet planning objectives. 2016 and 2017 offered solid returns in accounts that exceed our planning objectives. 2018 was a bit of a wash after 2 really good years. Markets appear to be optimistic for 2019 thus far and we believe that if interest rates remain stable, the Fed backs away from tightening, and trade policy talks are resolved, then we may have reason to be optimistic yet again. We look forward to the remainder of 2019, ready to take advantage of opportunity should it arise, but hope to see continued gains and/or income that meet or exceed planning goals.

Disclosure and References

Index results such as the Wilshire 5000 and S&P 500 do not reflect management fees and expenses and you cannot typically invest in an index

Evergreen Wealth Management, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

Briefcase Study: The Tax Torpedo

In a recent meeting with a family we serve, the conversation - as it often does - turned to Social Security. The question was, once again, whether it was best to begin receiving Social Security benefits at age 62 or wait until age 66 and 6 months, their Full Retirement Age (FRA) with Social Security. I was reminded how important this topic was to you, and thought you would find a more in depth look very helpful. Although there are a number of reasons why one person might claim at 62 while another claims benefits at 66 or beyond, allow me to focus this article on one specific aspect: taxes.

Social Security Income benefits are taxable to the receiver, but on a limited basis, and on a sliding scale dependent on the value of all income received. For simplicity's sake, just know that up to 85% of Social Security Income is taxable. That is as opposed to 100% of a withdrawal from an IRA or 401(k). Thus, when you take money out of an IRA in retirement, all of that withdrawal is taxed at your ordinary tax rate. Social Security Income is only taxed at up to 85%, depending on how much income you earn from other sources (wages, pension, dividends, etc.).

Why is this important?

If you are building a retirement income plan, deciding whether to use Social Security Income to meet your expenses or using IRA money can have widely different results. Because Social Security Income is taxed to a lesser degree than other sources of income, you may wish to delay taking it and using IRA money first. This allows the Social Security Income to grow, meaning you're deferring a growing and more tax-friendly asset than your IRA.

This example may help to clarify. Let's say you could magically predict that your IRA would grow 8% next year. Social Security, on the other hand, is guaranteed to grow 8% each year that you wait to receive benefits after age 62. If you had to choose which account to use first for income, your IRA or Social Security, which would you elect?

Let's take a look:

IRA
$10,000 grows at 8% to $10,800, of which $10,800 is taxable (100%) when withdrawn, **Taxed at 20% = $2,160 of tax owed to IRS**

Social Security
$10,000 grows at 8% to $10,800, of which $9,180 is taxable (85%) when received, **Taxed at 20% = $1,836 of tax owed to IRS**

Difference in taxes owed = $324 in favor of taking Social Security first.

Note that this difference occurs each and every time you receive a check, year after year. Even if we stop here and choose to neglect all of the other reasons for possibly delaying taking Social Security, can you see the value in just the tax savings? Of course you can … with our sample numbers it's $324, over and over and over! And most people are not earning enough income to see the 85% rate I used in the example; most are closer to 50%, which makes the difference even more dramatic.

Imagine if I put a sign in front of our office advertising that we're giving $324 to each person who is eligible for Social Security benefits, and we'll continue paying that year after year. We'd have a line down the street!

The name of the strategy is 'reversing the tax torpedo.' It's just one of many ways that you can increase the total value of your assets and income without even discussing rates of return on your investments in the market. While it may not be the best strategy for everyone, it's certainly worth considering the tax impact before making an irrevocable decision.

If you're interested in this strategy and more, contact us for a deeper discussion.

5 Reasons to do (or update) your Estate Planning

Richard Chamberlain,
Founder and principal attorney
of Chamberlain Law Group, Ltd

There are essentially 5 reasons why people need to set up an estate plan for themselves. A good estate plan will address all 5 of these issues.

First, estate planning avoids unintended results. Without a plan in place, you won't have control over who receives your assets or who is going to be in charge of your estate. The State of Ohio has a plan for who receives your assets if you don't have an estate plan of your own. In addition, without a plan in place, the process of administering your estate will be much more expensive and difficult. Having an estate plan allows you to avoid these unintended results.

Second, people do estate planning so that their estate avoids probate. By avoiding probate they are able to avoid the pitfalls of probate, such as the increased fees and costs, loss of privacy, and loss of control over your assets. Setting your estate plan up correctly allows your estate to avoid the probate process and be much more effective and efficient.

Third, people do estate planning to protect their beneficiaries. Whether your beneficiaries are minors or adults, they can still benefit from the protections that a good estate plan can provide them. With the right kind of planning you can protect them from creditors, inexperience with handling money, addiction or spendthrift issues, or even a possible divorce.

Fourth, good estate planning can preserve family harmony and reduce the risk of fights or disputes among your loved ones. Without the right plan in place that directs who will be responsible for paying your final expenses, your taxes, and the other costs associated with your estate, your beneficiaries could end up fighting each other over those things. We've even seen family members suing each other over the administration of a parent's estate. The right kind of planning can reduce the risk of having your family torn apart over your estate.

Finally, the fifth reason people do estate planning is to protect and preserve their assets. That could be simply reducing the amount of fees, costs and taxes that are imposed on their estate, or it could be asset protection planning to protect your assets from your potential creditors or from the costs of nursing home expenses.

If you have any questions, or would like to take a look at how doing or updating your estate plan can accomplish these things for you and your loved ones, please call my office at 419-872-7670, and we will set up a no-cost initial consultation for you.

Fourth Dimension Financial Group, LLC
27121 Oakmead Dr. Suite B
Perrysburg, OH 43551

Fourth Dimension
—Financial Group, LLC—

Fourth Dimension Financial Group exists to help people seeking financial retirement achieve enough, live fully, and help others do the same. Appearing regularly in national industry publications and local media for retirement planning insights, Adam and his team of highly-focused and passionate advisors help clients achieve greater clarity in their planning.

Fourth Dimension's clients benefit from the use of world-class income planning, tax reduction, and risk management strategies, resulting in a retirement plan that works in any economic conditions rather than one built on hope and luck.

To your success,

Founder, Principal, and Retirement Income Certified Professional®

Adam Cufr, RICP®
Fourth Dimension Financial Group
Call (419) 931-0704
Email adam@fourthdimensionfinancial.com
Visit www.FourthDimensionFinancial.com