

Soaring Stocks Raises Importance Of Diversifying

The concept of diversification is vital to investors: Don't put all your eggs in one basket so they won't all get smashed if you trip and fall. It's better to spread your wealth over a broad financial spectrum of investments, but avoiding pitfalls isn't as intuitive as it may seem. This is especially important to remember when stocks are soaring and portfolios can get overloaded with stocks and human nature is to get greedy and overly optimistic about a continuation of the current trend.

Retirement investors sometimes think broadening asset allocation is as easy plunking 401(k) contributions into a fund investing in the Standard & Poor 500, which is called a "broad market index." But 500 stocks is not a diversified portfolio. It diversifies exposure in a single asset class — namely, large U.S. companies with a market capitalization of more than \$10 billion. That's not a broadly diversified portfolio.

In 2008, when the financial crisis hit, many investors held portfolios loaded up on U.S. stocks. That year, the S&P 500 fell 38%. If more of their

holdings had been in bonds, particularly U.S. Treasuries, the crisis would not have hurt their portfolios as badly. The Bloomberg Barclays U.S. Aggregate Bond Index, representing U.S. Treasuries, corporates and other investment-grade bonds, gained almost 6% in 2008, as stock investors scrambled to a less risky place for their money.

Diversification is like salsa. You can't make it with tomatoes alone. You blend in onions, garlic, cilantro and jalapeno to create the right recipe for you. Diversifying requires adding more than large-cap stocks.

The classic meat and potatoes portfolio of stocks and bonds became popular in the 1930s. The same way we've learned since then that adding vegetables and salads improves your odds of good health, increased understanding of finance tells us adding additional types of assets to a portfolio improves the odds of a retirement portfolio surviving longer.

A portfolio spanning seven asset classes and allocated equally across 12 different types of securities provides an example of the rigor, discipline, and

wisdom of diversification. Stock mutual funds or exchange-traded funds diversify a portfolio across indexes of large-, small- and mid-sized companies, as well as different

The Best Places In The Country To Retire

“Go west, young man, go west” was an expression first used by John Babsone Lane Soule in the *Terre Haute (Indiana) Express* in 1851. It appealed to famed New York journalist Horace Greeley, who rephrased it in an editorial in the *New York Tribune* in 1865: “Go West, young man, and grow up with the country.”

The country indeed has grown up in the past century and a half, and the new advice well could be, “Go south, old man [or woman], go south.”

That's essentially what financial planner website WalletHub reported recently when it compared information about 150 metro areas and listed what it calls the best places in the country to retire. Topping the list was Orlando, FL, with Tampa, FL, coming in second. Florida cities took three of the top four spots with Miami picked as No. 4 best place to retire. Cape Coral came in seventh, giving the Sunshine State four of the top 10 rankings.

Scottsdale, AZ, was ranked third best and Sioux Falls, SD, fifth. Rounding out the top 10 were Las Vegas, NV, sixth, Atlanta, GA, eighth, Minneapolis, MN, ninth, and Los Angeles, CA, tenth.

Sioux Falls fifth? How did a far-flung area in the Snow Belt get such a lofty rating?

WalletHub statisticians used four sets of criteria in arriving at their conclusions: cost of living, recreational activities, quality of life, and health care availability.

Sioux Falls ranked No. 1 in health care and No. 19 in affordability.

By comparison, San Francisco, CA. — No. 11 — ranked No. 1 in activities, but came in as the 146th most expensive place to live in the U.S.

Seven Asset Classes

12 Types of Securities

US Stock	Non-US Stock	Real Estate	Resources	US Bonds	Non-US Bonds	Cash
Large-Cap	Developed Non-US	Real Estate	Natural Resources	US Bonds	Non-US Bonds	Cash
Mid-Cap	Emerging Non-US		Commodities	Treasury Inflation Protected		
Small-Cap						

Source: Craig Israelsen, Ph.D., Financial Planning Program, Utah Valley University

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Bitcoin, Chasing Your Tail, And Investing

Thinking about Bitcoin? Could be a good time to hop on, right?

Wrong! Usually, by the time the average investor jumps on a gaudy, freewheeling bandwagon, it's too late. The price spike has already occurred. If the investment is a fad, a sickening plummet may well await you.

Bitcoin blasted to a record high at rocket speed, hitting \$19,783 on December 17, 2017, before plunging 25% in the next 10 days. The cryptocurrency may yet be destined for greatness over the long-term, but its supersonic ascent and subsequent nosedive look much like other notorious investment fads.

In 1637, Dutch investors lost their bloomers on tulip bulbs. During tulip-mania, prices for bulbs reportedly rose from November 1636 to February 1637 by 2000%, according to academic research published on Wikipedia. The accompanying table lists a basket of goods claimed to have been exchanged for a single tulip bulb in the mania.

These objects of

desire were flowers. It made no sense. The crash of the bulbs shattered lives and has ever since served as a beacon in financial history, warning investors of the risk in chasing performance.

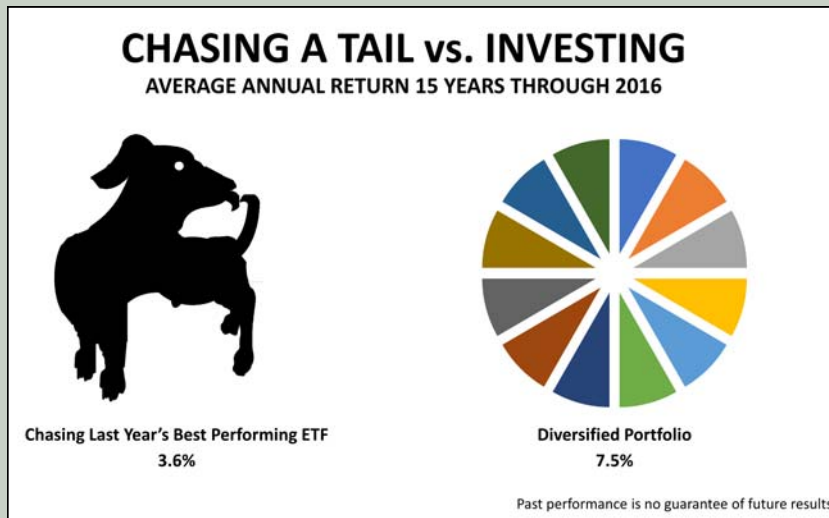
Investing in Bitcoin makes little sense considering that it is one of many crypto-currencies being mined on the Internet. The value of a crypto currency is set by supply and demand and supply is set by a software program that's not tied to a sovereign state. Transactions are easily hidden from tax authorities. Ultimately, crypto-currencies compete with sovereign nations, which is why some governments are starting to move to regulate them. In the time this was written, not only had the price of Bitcoin

plunged 25%, but South Korea became the first nation to ban all anonymous crypto currencies and regulate the rest.

Bitcoin's ascent was easy to spot as a mania, but the modern-day danger inherent in chasing hot performing investments is often far less apparent. For example, say you bought the No. 1 performing Exchange Traded Fund annually for 15 years through 2016. Sound like it could be a strategy for success? Think again, according to Dr. Craig Israeslen, Ph.D., who teaches portfolio design techniques to financial professionals. Your average annual return was 3.6% — less than half the annual return of a broadly diversified portfolio invested across 12 different

types of assets equally and rebalanced systematically every year over the same 15-year period through 2016.

Human nature makes people susceptible to investment manias, shiny bright objects like Bitcoin, and chasing last-year's winners. It's why people will always need investment professionals to stay focused on economic fundamentals, quantitative analysis, controlling fear and greed. ●



Lending Money? Watch Your Tax Step

Doug Burnside is in a quandary. His daughter, Megan, needs money to get a new business venture going. But Doug can't afford to give her the money outright and she has had trouble getting a loan from a bank.

What can be done? One idea is for Doug to lend his daughter the cash. Megan can repay Doug, with interest, if the business succeeds. Everyone wins.

But this kind of intra-family loan brings several potential tax pitfalls. As long as the loan is for \$10,000 or less, there won't be a problem. However, if the borrowed

amount is larger and he doesn't charge the going rate of interest, the IRS will "impute" interest for him, based on its own assumptions. He'll end up being treated as if he had charged his daughter interest, even though he hadn't, and he'll owe tax on that "phantom income" that he didn't receive.

In such cases, if the loan is for \$100,000 or less, the interest you will be considered to have received annually for tax purposes is limited to the amount of your child's net investment income for the year. And if that amount doesn't exceed \$1,000, you can avoid taxable interest

income on the intra-family loan. But the IRS may still intercede if it suspects that you're trying to dodge the tax liability.

How do you figure out what the "going rate" for interest is? It depends on several factors, including the type of loan, its length, and the interest rates in your local area. You might be able to charge slightly less than a local bank would get, but you can't go overboard.

What happens if Megan's business fails and she can't pay Doug back? The IRS could determine that the "loan" was always meant to be a gift. To avoid that problem, it's best

10 Common Questions About Social Security

If you're nearing retirement or you recently retired, you probably have plenty of questions about Social Security retirement benefits. Here are answers to 10 common queries posted online by the Social Security Administration (SSA).

Q1. How do I obtain a replacement Social Security card?

A. You can get an original Social Security card or a replacement card if yours is lost or stolen for free. Generally, all you have to do is submit the request to the SSA online. However, in some states, you must show additional documentation. Visit the SSA website for more information.

Q2. How do I change or correct my name on my Social Security number card?

A. If you're legally changing your name because of marriage, divorce, court order, or for any other reason, promptly notify the SSA and obtain a corrected card. This service is also free. Simply follow the procedures for getting a replacement card.

Q3. What are the ramifications if I receive Social Security retirement benefits while I'm still working?

A. If you haven't reached full retirement age (FRA) and you earn more than a specified annual limit, your benefits are reduced under this "earnings test" as follows:

- If you're under FRA for the entire year, you forfeit \$1 in benefits for every \$2 you earn that exceeds the annual limit. For 2017, that ceiling

is \$16,920.

- In the year in which you reach FRA, you forfeit \$1 in benefits for every \$3 earned above a separate limit, but only for what you earn before the month in which you reach FRA. For 2017, this limit is \$44,880.

Beginning with the month in which you reach FRA, you can receive benefits that won't be affected by whatever you may earn.

Q4. What is my FRA?

A. It depends on the year in which you were born. The FRA gradually increases from age 65 for those born in 1937 or earlier to age 67 for those born in 1960 and after. The FRA for Baby Boomers born between 1943 and 1954 is age 66.

Q5. Can I collect benefits if I retire before my FRA?

A. Yes. You can retire and apply for benefits as early as age 62, but your monthly benefits will be reduced by as much as 30% in that case.

Q6. Are benefits increased if I wait to apply until after my FRA?

A. Yes. You can receive increased monthly benefits by applying for Social Security after reaching FRA. The benefits may increase by as much as 32% if you wait until age 70. After age 70, there is no further increase. Visit the SSA website to figure out the exact amount of your "early" and "late" benefits.

Q7. How do I apply for Social Security retirement benefits?

A. You should apply for retirement benefits three months before you want your payments to start. The easiest and most convenient way to apply is to use the online application. Note that the SSA may request certain documents to verify your eligibility.

Q8. How do I handle benefits for an incapacitated person?

A. If your elderly parent or someone else who is entitled to receive Social Security benefits needs help in managing those benefits, contact your local Social Security office about becoming that person's representative payee. Then you assume the responsibility for disbursing the funds for that person's benefit.

Q9. Who is entitled to receive Social Security survivors' benefits?

A. A spouse and children, or both, of someone who has died may be in line for benefits based on that person's earnings record. Visit the SSA website for more details. Survivors must apply for this payment within two years of the date of death.

Q10. Are Social Security benefits subject to tax?

A. Yes, but not everyone is liable. You are taxed on Social Security benefits under a complex formula if your provisional income (PI) exceeds the thresholds within a two-tier system. PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income, and (3) one-half of the Social Security benefits you received.

- For a PI between \$32,000 and \$44,000 (\$25,000 and \$34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds \$32,000 (\$25,000 for single filers).
- For a PI exceeding \$44,000 (\$34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds \$44,000 (\$34,000 for single filers) plus the lesser of the amount determined under the first tier or \$6,000 (\$4,500 for single filers).

In many cases, these answers will lead to even more questions. The SSA website is helpful, but you may need additional guidance for your personal situation. Don't hesitate to contact us for assistance. ●

to have an attorney draft a formal loan document. It should include the usual terms that would be found in a bank loan. For instance, the document will usually indicate:

- The amount of the loan;
- The time allowed for repayment;
- The interest rate structure;
- A description of the collateral securing the loan.

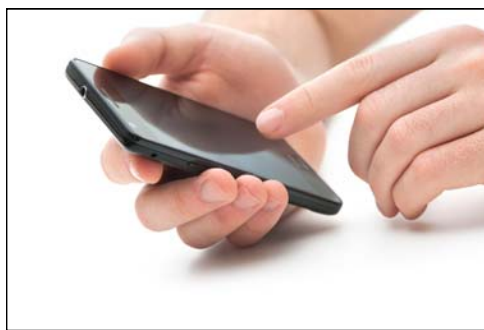
Finally, have the loan document witnessed and notarized. This is the best proof you can have if the IRS ever challenges the deal. Also, keep records showing repayments to demonstrate that the arrangement is a bona fide loan. ●



Watch Out For “Grandparent Scams”

It started innocently enough. Bill Frieland picked up the phone one recent morning at around 10 am. The person on the line said, “Hi Grandpa, it’s Jason.” To Bill, the voice sounded close enough to his grandson’s that he didn’t worry. The two chatted amiably a few minutes about family and school and nothing else in particular.

But then “Jason” dropped the hammer. He told Bill that he had been in a drunk driving accident in a neighboring state. Someone else had been injured and Jason needed \$1,950 to keep his name out of the records. An attorney who was supposedly advising him could make it all go away for that fee. But Jason said he needed the money right away and that he was afraid to tell his parents. And he asked that Bill not tell anyone else about it because he was ashamed.



Bill was almost convinced and ready to ante up. But when the caller requested the money, there was something about his voice that made Bill pause. He had his wife call Jason’s personal cellphone from her own phone while Bill was still talking to the person asking for money. It turned out Jason was safely at home, hadn’t left the state in weeks and had not been in any accident. When Bill confronted the caller with this information, the imposter quickly hung up.

Bill was fortunate that he didn’t fall for this “grandparent scam,” but many others haven’t been as lucky. Scammers are able to find out personal information and sound enough like the people they are impersonating to be believable.

They target elderly people and pull on their heartstrings with a story about needing cash in a hurry.

If you get a call that sounds

suspicious, the worst thing you can do is to help out the caller by referring to other confidential information (for example, the names and locations of other family members). Here’s what the Federal Trade Commission (FTC) advises:

- Resist the urge to act immediately no matter how desperate the caller’s plight appears to be.
- Verify the person’s identity by asking questions a stranger couldn’t answer.
- Call a phone number for your grandchild that you know is legitimate.
- Check out the story with trusted family members or friends even if you’ve been told to “keep it a secret.”
- Don’t wire money, send a check or money order, or use an overnight delivery service or courier to get cash to your “grandchild.”
- Finally, the FTC advises consumers to report the incident at ftc.gov/complaint or call 877-FTC-HELP. ●

Importance Of Diversifying

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types of bonds.

Funds and ETFs, whose holdings mimic indexes to represent broad categories of stocks or bonds cost about 1% a year less than an actively managed mutual fund or ETF. Saving 1% in investment expenses may not sound like much but, it adds up over the long term, due to the magic of annual compounding once hailed by Albert Einstein “as the eighth wonder of the world.”

Another way of looking at a diversified portfolio is as a pie apportioned in slices. In this example, the portfolio is comprised of 12 equal slices of different types of securities. In practice, the apportionment can be

tweaked to suit your risk tolerance and personal taste.

Periodically, one component of your portfolio is bound to outperform its historic norm. An 8.33% position grows in value to represent 10%, 12%, or more of the total portfolio and other allocations shrink. Correcting these imbalances periodically recalibrates your portfolio to your goals and preferences. Rebalancing is another mathematical wonder.

The bottom line is that a

low-expense quantitative discipline for managing a portfolio, when combined with personal financial planning to pay for long-term goals, does not guarantee you will get everywhere you want to go in life. But it gives you a clear road map to improve your chances for getting there. ●

