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FOCUSED ON WHAT MATTERS MOST.

Q & A - Markets and Economy

1 Which presidential nominee will be better for the markets and economy?

That's a tough one, both because it involves lots of unknowns as well as venturing down the political path, which we try to avoid in mass communication anyway. I think the way we're thinking about this one is as follows… Trump represents a huge no confidence vote for the status quo. His ascendancy is in large part due to a large segment of the population being fed up with the political system and the unfavorable economic trends that have persisted in America for decades. Overactive Federal Reserve policy and the resulting focus on Wall Street's interests rather than those of the average American play a huge role in these trends that have served to widen the wealth and income gap between the top 1% of wage earners and the rest of the country. That being the case, a Trump presidency (assuming he listens to his constituents once elected) represents a real threat to the status quo, which poses a very real short-term risk to markets and economy.

On the other hand, a Clinton presidency represents a much safer option. Few would argue her views are radical or different, making her a much more predictable president. Whether this is a good thing is obviously a matter of opinion, but from a market and economic standpoint, there would be far less potential to upset the apple cart in the short-term under a Clinton presidency.

2 So it sounds like Hillary Clinton would be better for my portfolio then?

Not necessarily. Although we feel Trump would create more risk to your portfolio in the short-term, there really isn't any way to eliminate the downward part of the business cycle. Remember, it's not normal to have only "good scenarios" all the time. Oftentimes what we deem as good or favorable actually ends up being harmful over time when there's too much of it. This can be likened to the drought that we're experiencing in the Northeast this summer. Lots of good beach weather – yes. But it's gotten to the point where wells are running dry, crops are suffering, and foliage season will likely be very early and dull. Bottom line, we need rain, just as the economy needs periodic contraction in order to shed excesses, inefficiencies, and excessive speculation.

So where we are in the markets right now is analogous to months of sun and no rain. We'll either get rain or we'll get the really nasty effects of too much sun – regardless of who becomes president. It's just a matter of timing and how it eventually plays out.

3 Is it possible that the rules of the markets have changed and that they can go up for longer than in the past?

Anything's possible, but it's extremely unlikely that the rules of the game have changed. At the end of the day, asset prices only go as high as people are willing to pay for them. The definition of a bubble is when prices reach levels that don't seem to make sense, yet people keep buying simply because they feel prices will continue to rise. Rationale for why values are going up gets thinner and thinner. At some point, investors realize that what they're considering for purchase has an underlying value that's much less than what the price reflects. Whether this is stock in a company that has no profit and a weak business plan, a bond that is paying less interest than the rate of inflation, or a house with a payment that represents half of one's disposable income, eventually investors get to the point where they decide not to make the purchase at all. This is the moment that represents the turn. History is littered with them and this time won't be any different. Exact turning points are impossible to predict based on factors that are unique to every situation, but they ultimately always happen when this general attitude or sentiment shifts. It's around the time when most begin to think the rules have changed that we're often reminded that they haven't.

4 Should I wait to invest given all the uncertainty in the world today?

Although the rationale for this is sound, waiting to invest can be tricky because it's always difficult knowing when the time is right to start putting money to work. Usually the best time to get invested is when the world feels scariest. The economy is struggling, the stock market is down significantly, and it's possible that the stability of your income and financial well-being is also in question making the decision to invest money that you feel you can't afford to lose a tough one. For this reason, we feel it's important to always stay invested in a strategy that helps you navigate the up and downs of markets and takes the emotion out of the equation at the most critical points – market tops and bottoms. As we all know, it's impossible to pick them. That's where active management and rule-based investing comes into play. These types of approaches will typically have more conservative portfolio allocations in expensive markets like we're in now. This is certainly the case for our clients who are utilizing active management.

5 If the markets and economy are likely to struggle over the next few years, will my retirement plan be ruined?

Not necessarily. For those who don't understand where we are in the economic cycle and the current valuation levels of markets, they'll likely be some very unpleasant surprises down the road. This is nothing new. For investors who were too aggressively positioned in 1999 and 2007, most of the progress they had made over years of investing was wiped out within months. This time probably won't be any different for unsuspecting investors. However, by taking a more conservative approach and focusing on principal preservation, there will most likely be opportunities down the road to invest at much more reasonable levels across the financial asset spectrum. By being smart and disciplined about when you invest, the odds of getting a decent long-term return that keeps you on track toward reaching your retirement goals goes up significantly. We're very optimistic in this regard.

Q & A - Planning Hot Topics

1 Should I consider contributing to my employer-provided Roth 401(k)?

Most employers, especially the medium and large-sized ones, provide some sort of retirement plan. A large percentage of those are traditional 401(k)s, where you contribute pre-tax dollars into the plan, you do not pay any taxes on gains inside the plan, and then every single dollar you take out of the plan in the future is fully taxable. Another well-known retirement account is the Roth IRA, which is almost the complete opposite of the 401(k). Like 401(k)s, the growth inside Roth IRAs is not taxed, but unlike 401(k)s, post-tax dollars go in, you can't save into them right out of your paychecks, and every single dollar you take out of the Roth IRAs in the future will not be taxed at all. People who can save into both generally do so, and people that can't have to choose between reducing their taxes today by saving into 401(k)s but paying taxes later versus not reducing their taxes today by saving into Roth IRAs but avoiding all taxes later.

Within the past few years, more and more employers have started offering Roth 401(k)s, which behave just like Roth IRAs with two important exceptions: you can save much more into Roth 401(k)s than you can Roth IRAs, and you can contribute to Roth 401(k)s no matter how much you make, unlike Roth IRAs where you can't make above certain amounts.

So why choose one 401(k) over the other? Well, if you are in a low tax bracket today and expect your retirement savings to grow much larger over time, if you are on the younger side for example, the small amount of taxes you have to pay today on those earnings before they go into the Roth 401(k) might be worth it considering just how much you'll be saving in the future. Even if you're in a higher bracket and you're no longer considered a young employee, you may still want to protect against taxes being much higher in the future and a Roth 401(k) could be one way to go. Additionally, even if you are in the 25% or higher tax bracket, if you already have a lot saved in 401(k)s and IRAs that will be taxed heavily during retirement, and especially if you make too much to save into a Roth IRA, you may consider a Roth 401(k) for the tax advantages it provides you later on.

Why not consider both kinds of 401(k)s? Consider utilizing the Roth 401(k) to save some for the future tax advantage, and then save the rest into the traditional 401(k) for the current tax advantage. One last benefit to a Roth 401(k) is that in the future, you could roll those dollars into a Roth IRA and never be forced to take required minimum distributions like you will from traditional 401(k)s and traditional IRAs.

2 Should I take advantage of my employer's group insurance benefits?

Each fall most employers allow employees to enroll in group benefits for the following year. Many of those benefits are absolute musts, like health insurance and retirement plans. However, supplemental insurances are frequently included as options. Many employers provide some amount of disability coverage at no cost, and then offer additional coverage above that for some amount to be taken from each paycheck. For example, you would receive 60% or more of your salary for 2 or 5 years or to age 65 were you to become disabled, and then you can pay an additional premium to bump that up to around 80%. That is also frequently the case with term life insurance as well: you are given some amount by the company, frequently equal to one year's salary, and you can purchase additional amounts above that.

Those extra benefits can be a good or a bad deal. If you are not in the best health and believe you would either have to pay extra to get your own insurance, or fear you would be outright declined, then using these supplemental employer insurance options may be an appropriate way for you to increase your disability and life insurance. However, because the cost of many of these supplemental insurance options increases 40% or more every five years, there is a good chance you could buy your own insurance without going through your employer and save money doing so. This benefit season, consider the additional benefits your employer can provide you, and then let us help you determine the most cost effective way to address those needs.

3 Should I make changes to my employer-provided health insurance?

As previously mentioned, participating in employer-provided health insurance is a must for most employees. Once employees enroll that first time they frequently neglect looking for any plan changes in following years and just allow their current level of coverage to roll over, usually at slightly higher rates. We recommend that during each open enrollment period, you treat your health insurance options as if you're starting completely over. Does it make sense to pay less but incur higher deductibles? Has a family member's health changed such that it makes sense to reduce deductibles by paying a higher monthly amount? Have you or your spouse's benefits changed to the point where it makes sense to switch health insurance to the other employer? Don't neglect considering these points just because you already have insurance and it's easy to continue with what you have.

4 If I choose to take social security early and my benefits get reduced, will they stay reduced forever?

They could, but it depends on what you did to reduce the benefits. Most people know by now that if you take social security before you reach your full retirement age, which these days for most people is 66 to 67 years old, you will receive reduced benefits. If you take benefits at age 62 and your full retirement age is 66, your benefits will be permanently reduced by 25%. Every month after age 62 that you wait to take benefits sees those benefits get closer and closer to 100% of your full social security retirement benefits. People who take benefits at age 62 when their full social security retirement age is 67 will see their benefits permanently reduced by over 33%. Taking your benefits before your full social security retirement age will cause a permanent reduction in benefits.

Now, if you do take those benefits early and you continue working, you may further reduce those benefits but only temporarily. For every $2 you make above roughly $15,720 in the years before the calendar year in which you reach your full retirement age, you see a temporary $1 reduction of your monthly retirement benefits. It gets a little more forgiving in the calendar year you reach full retirement age because your benefits will be temporarily reduced $1 for every $3 you make above roughly $42,000. However, those temporary reductions start to be added back into your monthly social security checks once you reach your full retirement age, with the aim of eventually getting all those temporarily reduced benefits back to you.

So, taking benefits early means a permanent reduction of benefits; continuing to make too much after taking those early benefits will result in a further temporary reduction of benefits. However, and we'd be remiss if we didn't mention this, if your spouse is receiving spousal social security benefits, the $1 for every $2 or $3 that would also be withheld from his or her benefit checks will never be added back.

For more detail on this topic, please see our February 2016 newsletter.

5 Now that it's harder to trigger federal estate taxes, should I still consider estate planning?

Yes, it does make sense to still do estate planning even though you are less likely to pay federal estate taxes than you were in the past.

Federal estate taxes are no joke, as the portion of estates exposed to federal estate taxes could lose up to 40%. As a result, estate planning in the past centered around avoiding paying as much of this 40% as possible. Now, individual estates get taxed by the federal government at amounts above $5 million, and married couples can have a combined estate of around $10 million without having to pay any federal estate taxes. As a result, fewer and fewer people have to worry about their estates being subject to federal estate taxes today than even just a few years ago.

However, individual states have their own estate taxes and many of them levy taxes on taxable estates at levels far below what the federal government does. Additionally, though the tax rates are lower than 40%, they are still high enough to want to avoid. For example, Rhode Island and Massachusetts tax estates above $1.5 million and $1 million respectively. It is not difficult to have an estate valued above that these days when you add in all investments, real estate and insurances. You might not lose 40% like you would with federal estate taxes, but still, a $2 million taxable estate in Massachusetts would lose around $150,000 to estate taxes. We're willing to bet you'd rather have your children or other beneficiaries get that $150,000 than just losing it to the state of Massachusetts.

Irrevocable trusts, charitable giving, and life insurance strategies are all possibilities when it comes to creating an estate plan designed to minimize or completely avoid state estate taxes. Receiving help from a qualified estate planning attorney in weighing the pros and cons of minimizing state estate tax or trust income taxes, or both, is a must. You may not lose 40% like a few years ago, however a $5 million estate would lose roughly $525,000 in Rhode Island and $600,000 in Massachusetts. We're willing to bet those are high enough figures to warrant some quality estate planning.