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CLIENT BULLETIN

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➢ *Continuing Education*

I recently spent three days at Duke University's Fuqua School of Business and Corporate Education Program for a continuing education seminar. Topics included background on upcoming tax reform debates, behavioral economics and the ways in which consumers are influenced by marketers, investment portfolio construction considerations and updates on the impact of longevity on retirement planning.

➢ *Land of Lincoln*

Illinois may be serving as the canary in the coal mine when it comes to the long-term effects of governmental overpromising. It appears the state will start its 2018 fiscal year tomorrow without a budget for the third consecutive year. This is unprecedented as no other state has gone even one year without a budget since the Great Depression. Their projected deficit for 2018 is $7 billion. The state's general obligation bonds are rated "triple-B minus" by S&P, just one notch above junk status. (Source: S & P)

➢ *Pension Tension*

The fiscal problem the state currently faces has been years in the making. The state is plagued by very high "legacy" fixed costs. For example, Illinois pension plans are just 35.6% funded, which leaves them with an unfunded pension liability of $141 billion. Annual costs to fund these pension liabilities, other post-employment benefits and debt service equate to 25% of their expenses, over three times the state median of 6.8%. Promises appear to have been made that cannot be kept and the unwinding process will not be pretty to watch.

➢ *Estate Taxes*

An individual who dies without using his/her entire $5.49 million estate tax exemption may pass on any "unused" amount to a surviving spouse, allowing the survivor the use of his/her own $5.49 million exemption plus the unused amount of the first spouse to die. This is the result of fairly recent estate tax law changes that allows the estate of the first spouse to die to file a "portability election" to preserve the unused exemption. Even if no changes in family situations has occurred, estate plans should be carefully reviewed every 5 years or so to make sure they are keeping up with estate tax laws (Source: Rev. Procedure 2017-34).

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- ***Knowledge vs. Action - Health***

The personal finance and dieting/fitness industries are often compared. Bookshelves are lined with an equal amount of approaches and strategies for success in both arenas. It appears that the two industries have something else in common - education alone is not enough. Consider the diet industry – between 1989 and 2012, Americans collectively spent more than $1 trillion on weight loss programs and books. In that same time period, obesity grew by more than 50% and extreme obesity doubled. (Source: "The U.S. Weight Loss & Diet Control Market").

- ***Knowledge vs. Action - Finance***

The same pattern has occurred in personal finance. Despite a landslide of information and literacy about the importance of investing for one's own retirement, savings rates remain far below the levels required to achieve retirement readiness. Knowledge alone usually isn't enough to change behavior because people are often looking for a silver bullet that will offer a simple solution that doesn't require much work. You can read all the dieting or investment books you want but they won't help you if you are unable to make better decisions when needed. Intelligent behavioral design and systems are useful in bringing about real change. In the financial world, two examples that have proven to be effective are default enrollment of employees in 401(k) plans and designed interventions (by a financial advisor of course) when people are about to make a harmful financial decision.

- ***Market Prognostication***

"The reason that 'guru' is such a popular word is because 'charlatan' is so hard to spell." – William Bernstein.

The term 'guru' is tailor made for the personal finance industry because it attracts people pretending to know more than they do. A headline on a well-known finance website last week comes to mind: **"Legendary investor Jim Rogers expects the worst crash in our lifetime"**

Who wouldn't be scared by this – after all, Rogers founded the Quantum Fund with George Soros in the 1970s and retired in his late-30's to travel the world so he is indeed a "legendary investor." But is his crystal ball clearer than anyone else's? Apparently not. Googling headlines from Rogers yielded just a sampling of his articles:

2011: 100% chance of Crisis, Worse than 2008
2013: Jim Rogers warns: "You Better Run for the Hills!"
2015: We're Overdue for a Stock Market Crash
2016: $68 trillion "BIBLICAL CRASH" Dead ahead?

Ups and downs are inevitable in investment markets and can happen at any time, but extreme predictions from "gurus" provide no useful value.

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