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CLIENT BULLETIN

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- ***Volatile***

The nearly 20% decline in the S&P 500 stock index in the **4th quarter of 2018** followed by one of the largest returns ever during the first half of a year in 2019 gets one thinking. Did 500 of the largest, best financed, most profitable companies in the world really lose 20% of their value as ongoing businesses over a three month time period, only to gain it all back plus some in the following six months? Of course they didn't, but more on that later (source: Standard & Poors).

- ***Stability Pyramid***

In the U.S. economic/financial ecosystem there is a pyramid of stability. At the bottom is the most stable component – ***the economy*** as represented by Gross Domestic Product (GDP). Our GDP generally changes within a relatively narrow range of -1% to +4% in any given 12-month period. The next level up on the pyramid is company financials, mainly in the form of ***profits***, which rise and fall much more than the economy as a whole. The third level of the pyramid is the ***prices of the stocks*** of the companies, which fluctuate to an even greater degree than company profits.

- ***Level 4***

This third level of volatility ***still*** doesn't get us to the kind of short-term fluctuations mentioned in the first bullet point. Those gyrations can only be explained by the fourth and most volatile level of the pyramid – ***investor emotions***. One's ability to distinguish between a relatively stable economy at the base of the pyramid and volatile investor psyche at the top of the pyramid makes all the difference in investing success.

- ***Tweets, Fed Statements and Political Grandstanding, Oh My!***

It's very easy to look at current headlines and conclude that investing right now is risky. The truth is that the closer you focus on day-to-day developments, the more likely you are to be whipsawed emotionally and financially. The converse is also true: the further you can step back, the calmer you are and the more able you are to make good decisions. Presidents and Congresses come and go, but as long as a majority of the 7.7 billion people on earth wake up every morning and are able to make the best decisions they can for themselves and their families, the global economy will go on despite the daily headlines.

- ***A Really Big Idea***

More than 50% of Americans will be part of the top 10% of income earners at some point in their lifetimes (source: The Guardian, May 8, 2019).

- ***Expected Moves***

The U.S. has more flexibility than China to adapt to the tariffs that the countries have slapped on each other recently. US manufacturers have moved some of their supply chains away from China resulting in a **decrease** of imports to the US from China YTD through 5/31/19 by 12% and an **increase** in imports to the U.S. from Taiwan (22%), India (12%) and South Korea (12%) over the same time period (source: Commerce Department).

- ***Limit? What Limit?***

In March this year the federal government reached its “debt limit”, meaning they couldn’t borrow any more money. This is a problem when you need to borrow $1 trillion per year to keep things running. Since then the government has limped along using the tax receipts it does receive and robbing Peter to pay Paul by transferring funds set aside for future expenses. There was concern that these temporary measures would run out before Congress returned from its summer recess, but Congress and the President reached a budget deal (set for approval by the Senate this week) before heading off for the summer.

- ***Spending Party***

The rap on Washington is that it is too partisan, but that wasn’t a problem with this “deal” because both sides agreed to throw fiscal restraint out the window. Republicans got **additional spending** on defense in trade for Democrats getting **additional spending** on domestic issues. Where are the checks and balances in that? Spending limitations that were agreed to in the **Budget Control Act** of 2011 were blown out, the 5th time since 2011 that Congress has ignored the spending caps in that **law**. The debt ceiling was suspended until 7/31/21 as part of the deal. Everyone wins under this scenario except future generations who will ultimately have to pay for this mountain of debt (source: Treasury Department, Congress).

- ***What if They Got Mad and Left?***

This fact is mind-boggling: the top **1%** of income earners in California pay **48%** of the total state income tax collected (source: Institute for Taxation and Economic Policy).

- ***Counterintuitive***

If you eat right, exercise and stay on track with your doctor’s recommendations you will have lower medical costs in retirement. Right? Unfortunately no, according to a newly released report from HealthView Services. The findings are based on 530 million healthcare cases, as well as actuarial, government and economic data. The report shows actuarily projected total lifetime healthcare costs including premiums for Medicare part B, part D, dental and supplemental Medigap insurance as well as out-of-pocket outlays for medical, dental, hearing and vision.

- ***The Data Says***

The report shows projected annual healthcare costs for healthy Americans will, on average, be lower on an **annual** basis than those for people in poorer health, which makes sense. But because healthy people are expected to live longer, their lifetime health cost will be higher. For example, a healthy 55-year-old woman living to her average life expectancy of age 89 will need to plan for $424,875 of lifetime healthcare costs. If the 55-year-old woman has Type 2 diabetes, her actuarial longevity is age 80 and her projected total lifetime healthcare costs will be far lower, at $266,163. Healthy or not, we all need to plan for healthcare expenses in retirement.