THE
Retirement Report
Retirement Transition Planning

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Economic Facts To Prepare For The Elections

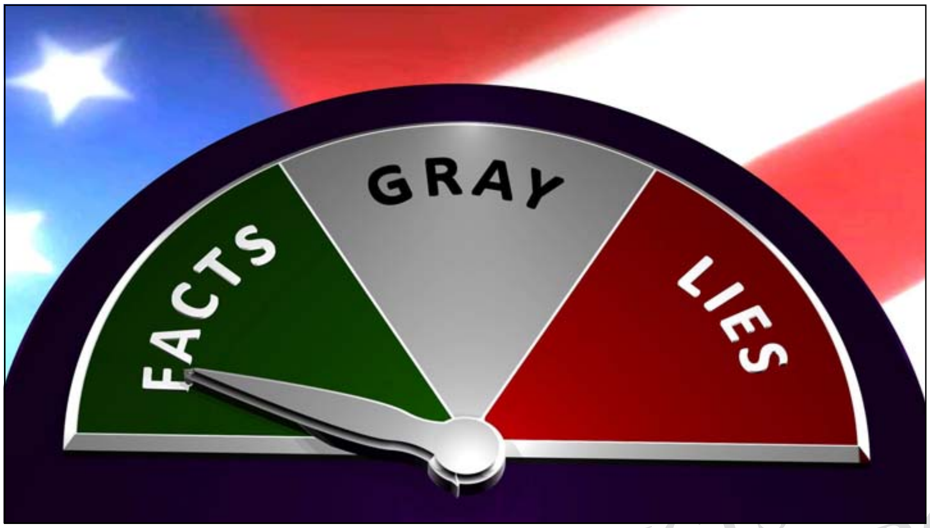
With the mid-term elections approaching and the political stakes increased, the level of misinformation on economic conditions is likely to rise.

To avoid making bad financial decisions based on distortions and outright lies constantly on TV news, here are economic facts to survive the political season.

That equals the rate of growth in personal disposable income in the last economic expansion!

Yet politicians and pundits across the political spectrum often bemoan stagnant wages and income.

Real disposable personal income per capita grew by 2.2% in the 12 months ended July 2018, compared to the 1.8% five-year annualized growth in the peak of the last economic expansion.



As the election nears, you are likely to hear on TV the news that Americans are suffering from slow growth in wages and personal income. That's just not true!

Wages and benefits, the key drivers of the U.S. economy, grew at a 4.4% annual rate. Consumers have more money in their pockets!

Meanwhile, the interest and dividends portion of personal income surged 6.4% in the 12 months through July 2018 — welcome relief for retirees.

Disposable personal income, before inflation, grew 5.3% in the 12 months ended July 2018.

You're also likely to hear more talking heads on TV news saying inflation is rearing its ugly head again.

They're not lying but they're often not giving you all the facts.

A key inflation index that U.S. central bankers at the Federal Reserve consider in deciding interest rate policy, the Personal Consumption Expenditure Deflator, poignantly is doing what's expected by policymakers.

The Fed chair, according to the minutes of the Federal Open Market

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It's Best To Get The Facts Straight

In past letters and articles, we've passed on the knowledge that there's no clear evidence that markets do better or worse under Presidents of different parties. "Don't vote with your shares!" is the advice we put forward. Indeed, we had clients ready to sell out when Obama was elected, and again when Trump was elected. The half-truth is the market rose under both of them! The full truth should include the fact that the market crashed just before Obama's election.

Today there's a myriad of "facts" out there that don't tell the whole story. They might not be lies, but very well could be half-truths, emotionally charged or taken out of context. What's clear is that many Americans' point of view is supported by the "facts" they want to hear, without consideration of the facts they don't want to hear. It's often hard for us to separate the message from the messenger. Can a proposal seem good if we dislike the presenter? Or bad if we like them?

This is all made worse by the looming election. We suppose this is the way of most elections, but this one just seems particularly bad. We should be cautious with our investments however, since losses can result from biased actions. In the end, perhaps the reason there's no clear connections between the President's party and the direction of the markets is that no President wants to usher in hard times. It's wise to realize that the causes of most recessions are situations neither party fully controls.

Stay Well;

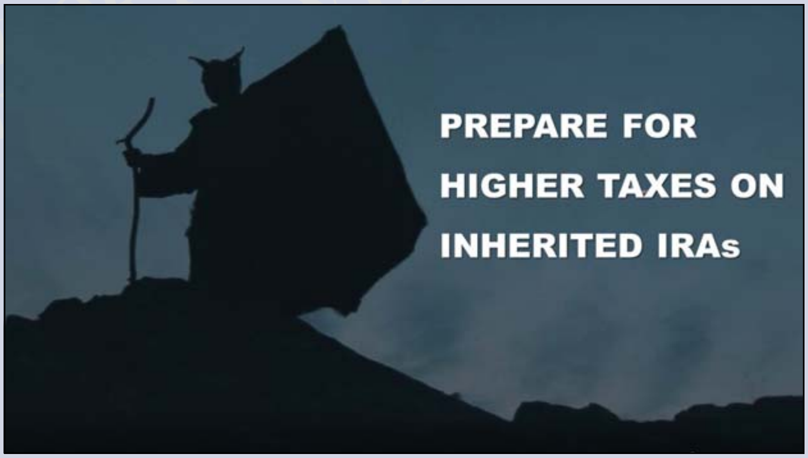
Ric and Trang

Prepare For A Sweeping New Law On Retirement Account Taxes

A sweeping new law changing retirement investing tax rules was passed by the House of Representatives on May 29th. It's expected to be passed by the Senate and has the support of President Donald J. Trump. Although the legislation may not be signed into law until late this year, individuals with retirement accounts should consider how its enactment will affect them and their beneficiaries. Here's what you need to know now:

Secure Act Misnomer. The legislation is referred to as the Secure Act. Often buried or unmentioned in coverage is the full name of the legislation, "Setting Every Community Up for Retirement Enhancement Act of 2019."

Kills Stretch IRAs. A popular strategy for stretching tax deferral would be eliminated by the proposed law. The legislation's sweeping changes would kill stretch IRAs and represents a move to higher taxes on IRA beneficiaries. Non-spouse beneficiaries of Individual Retirement Accounts (IRAs) would no longer be permitted to defer taxes on payouts of inherited IRA over their expected lifetime after 2019. Under current rules, you could leave an IRA to your children and your heirs who can take distributions from that IRA based on their life expectancy. This allows those inheriting IRAs to stretch deferral of taxes over many decades, and the IRA account compounds without being taxed in this period. Under the proposed change, heirs would be required to distribute an inherited IRA over 10 years.



Exceptions. The proposal carves out an exception for minors — 18 or 21 in most states — until they reach the age of majority, and then they would be required to distribute the assets in the IRA over 10 years. A surviving spouse, those who are chronically ill or disabled are among those not affected by the new 10-year payout rule.

Beginning Date Of Required Minimum Distributions (RMDs). The new law would push back the age at which you must begin withdrawing money from an IRA. Under current law, you are required to begin taking distributions on the 1st of April following the year you turn age 70½. Under this new statute, that's going to be pushed back to age 72.

Stay Tuned. Waiting till the legislation is signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones, and the legislation makes changes so sweeping and so new that its effects on long-term financial plans are still being researched. Please watch this space to learn details about ways to shield yourself and your beneficiaries from higher taxes on IRA payouts in the weeks ahead. Tax panning requires a qualified tax professional and personal attention. This is an early warning about an important issue affecting strategic long-term tax planning and not intended as tax or legal advice. ●

Amid Record Stock Prices, Fed Policy Is A Risk

Stock prices have soared in 2019, breaking records repeatedly, and the latest economic signals — though less robust — indicate no recession is on the horizon.

Perhaps the biggest risk threatening to end the 10-year old expansion is the Federal Reserve Board's inflation policy.

The Fed incorrectly for over five years has predicted an inflation rate of 2%, and the central bank's June 19th economic release was unrelenting in its forecast.

If the Fed's 2% forecast had been correct since January 2010, the trajectory of the inflation rate would have looked something like this blue line.

In fact, the actual rate of inflation, shown in red, has been approximating the 1.5% growth trajectory.

The last time the Fed's forecast for 2% inflation was correct was in 2011 and 2012, but the Fed's forecast has been off year after year since 2013!

The Fed's broken forecast for inflation has not ended the long expansion, but economic growth has slowed, and the Fed's policy has increased uncertainty.

On December 19th, 2018, amid the trade war with China and growing signs of a global slowdown, the Fed hiked lending rates; it caused a flash bear market plunge of 20% in stocks, chilled holiday retail sales, and growth in new jobs abruptly stopped.

On January 4th, 2019, the Fed did a complete about-face and Chairman Jerome Powell said plans to hike rates further were on hold, seemingly acknowledging that the Fed's economic model was wrong.

Since all recessions since 1954 were caused by a Fed mistake, the Fed is at a crossroads; its inflation policy in the weeks ahead will be key to the expansion continuing. ●

A Primer On Setting Up A Trust Fund

Trusts funds used to be the realm of the wealthy, providing a tool to pass money to heirs and charities. Nowadays, though, they are becoming a means for more people to engage in smart estate planning.

Trusts are legal arrangements allowing you to put assets into accounts that benefit another person or an organization, like a charity or college. They are often complicated and require a lawyer to put together — although there are online alternatives if you want to attempt to do it yourself.

The basic idea is to control who gets your assets, either when you're alive or afterward. A trust can help you lower estate taxes and avoid probate, the often-arduous legal procedure that proves a will is valid.

First Steps. As you set up a trust, you need to settle a few key questions:

1. What assets go into the trust: stocks, bonds, mutual funds, cash or property?

2. Who are the beneficiaries, meaning the people who receive the trust's benefits?

3. Who will be the trustee, the person who manages the assets and oversees the trust? The best thing is to appoint someone you know, who also is familiar with your financial situation and your beneficiaries. Plus, this person should be financially astute, and knowledgeable about taxes and investing.

4. How will be assets be invested and managed, and when will they be paid out? For instance, you might not want your children to receive the benefits until they're 35, as an established adult.

5. What is the duration of the trust, and under what conditions will it end operations? Is it paid out over time, or all at once?

6. Can its conditions be changed? Some trusts are irrevocable, meaning they are chiseled in stone. Others are revocable, meaning for instance you can shift the beneficiary to be your daughter instead of your younger brother.

7. What stipulations do you want? Maybe the money will go to your son for everything except paying off his creditors. Or your daughter, but not your son-in-law if she should die.

Beyond these considerations, it's wise to find a good, experienced estate attorney. The lawyer will craft a document called a declaration of trust, which will set up the trust fund and establish its conditions.

Timing. Next, the trust fund is registered with the IRS, allowing it to file its own tax returns and legally open financial accounts at banks or other institutions. Then, you transfer the assets into the trust, a process called retitling.

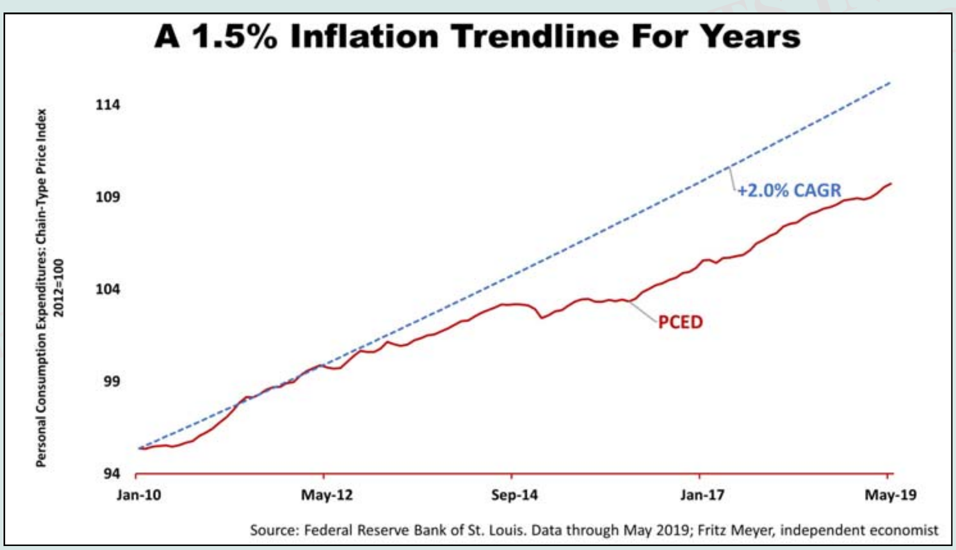
Do you want the trust to take effect now or at your death? And should it be revocable or irrevocable? The argument for revocable is that your beneficiary, perhaps a young person, may not grow into someone who deserves your generosity. The case for irrevocable is if you want to earmark the assets to support an activity whose necessity won't likely change, such as educating a child or supporting a charity.

The question of how long the trust will stay around, before its last assets are paid out, is a tricky one. Common law is structured against letting trusts persist indefinitely. But many states let you get around that by setting up a so-called dynasty trust, which permits the wealth to grow for a long time without being taxed.

Types of Trusts. Aside from whether the trust is revocable or not, its structure can be very complex and carry advantages and disadvantages. Some examples:

- Generation-skipping trust, aka a dynasty trust. This lets you transfer money tax-free to beneficiaries who are two generations younger than you. The goal is to avoid the assets being taxed twice: once when they go to your grown children, and again when that generation passes the assets along to their own kids — namely, your grandchildren.
- Bypass trust. Here, you bequeath an amount up to the estate tax exemption (in 2019, that's up to $11.4 million from a single giver or double that from a couple). The rest goes to your spouse tax-free. After your spouse dies, you can stipulate that what's left goes to the kids.
- Qualified terminal interest property (QTIP) trust. This is best at singling out which particular relatives to direct your largesse to. A QTIP is often helpful in families where there are divorces, remarriages and stepchildren. Your surviving spouse can receive income from it, and once that spouse dies, the remaining principal goes to specific younger relatives.

For you, the donor, creating a trust fund gives you peace of mind that the legacy you want to leave is well-constructed and wisely directed. This article is not intended as personal advice, but rather as an educational resource about planning techniques available when working with a financial professional. ●



Source: Federal Reserve Bank of St. Louis. Data through May 2019; Fritz Meyer, independent economist

The Explosion In Retail Sales You Never Hear About

What's happening in the world often goes unnoticed, even when it occurs in plain sight right before our eyes.

That's happening to investors right now with the explosion in the growth of retail sales that's been under way for years, but has gone unnoticed.

The boom is being muted by inflation, but is loud and clear with that adjustment.

Since consumers account for 70% of U.S. growth, retail sales is a key driver of the economy, so this is a big miss, a big misperception for investors to make.

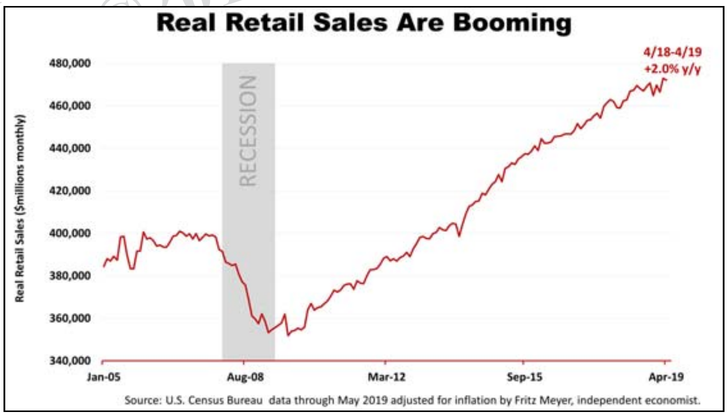
These were the top stories on Google the day after the latest retail sales figures were released by the U.S. Census Bureau.

The headlines show retail sales were up, but there's no hint of the boom.

Yet, when adjusted for inflation, retail sales have grown explosively for years!

Here's the proof: This line charts monthly retail sales data over the last 15 years, adjusted for inflation, and this boom — over the past 10 years — is clear.

Look at where real retail sales after inflation is today versus the peak of the last economic expansion, in 2007.



Real retail sales were flat throughout the peak years of the last economic expansion; in contrast, this 10-year expansion has been marked by this steep growth-trajectory in real retail sales, and it does not get mentioned in the news!

Here's why.

Every month, the media are given a press release that does not adjust for inflation.

Excluding volatile gasoline prices, which can distort the monthly figures, retail sales in the 12-month period through May, rose 3% without adjusting for inflation, which is not bad but certainly not a boom!

The media doesn't know that reporting the Census Bureau retail sales data without adjusting for inflation masks the retail explosion that's been under way for a decade.

Biases and gaps in knowledge often clouds how the world is viewed.

That's where a financial professional's perspective adds value. ●

Prepare For The Elections

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Committee meeting recently released, expects inflation to hover around 2%.

It may go above 2% for a time and that is expected. But it may also go slightly below 2%.

Meanwhile, at 2.3%, the PCED deflator is above the Fed's target of 2%, but the Core PCED, at 2%, is right on target — and that is the key figure.

The core PCED is a basket of fixed monthly expenses that excludes gasoline and other volatile expenses.

It's all about long-term expectations, which is how you want the Fed to think if you're an American investor.

The cost of an employee in the U.S. rose 2.8%, but core PCED grew only 2%. That means employees are getting wage increases because the cost of an employee rose, but the core inflation rate did not reflect the rise! That's a free lunch!

Productivity surged in the second quarter of 2018, which explains why inflation did not rise as fast as wages and benefits, and that's about the best thing you could hope for: increased productivity.

Unit labor costs declined! The cost of an employee went down!

Rising wages and benefits were offset by a 2.9% surge in productivity!

Productivity is a key to prosperity for the American economy.

Labor costs, by far the biggest driver of inflation, declined in the second quarter by almost 1%.

This was a reflection of the surge in second-quarter productivity.

The University of Michigan's monthly survey of confidence dropped from 97.9 in July to 96.2 in August. No irrational exuberance here. Consumers are not about to go on a debt binge, stop saving, or make speculative investments.

Which brings us to the Standard & Poor's 500 stock index.

Despite a looming trade war with China, U.S. political polarization, and a Presidential political crisis, the economy is great, according to shareholders in America's largest publicly-owned companies.

As the current expansion closes in on the post-War record for longevity, investors can expect the coming elections to stir up the false narrative of stagnant wages and slow income growth. Don't believe it. ●

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