REFLECTIONS

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To Your Future Prosperity

THE TOP 4 REGRETS IN RETIREMENT

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It's hard to ignore the topic of retirement. You most likely see news reports about the state of retirement savings in our country, come across articles on your social media, or receive updates on your 401(k), or other investment accounts from your employer or financial advisor. For many of us, retirement is at the top of our minds as we work hard to grow our nest egg so we can one day slow down, change pace, and finally have all the time we need to pursue passions and invest in relationships.

But one question that probably doesn't cross your mind as you inch closer to this milestone is this: What if you get to retirement and it's not all it's cracked up to be? Have you considered the idea that you could regret your decision to retire? Here are four common retirement regrets to keep in mind as you prepare for your golden years.

INSIDE THIS ISSUE

If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 844.377.4963

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1. Not Having A Roth Ira Contribution Strategy

Not saving enough is a common retirement regret, but it's also essential to save in the right ways and with the right savings vehicles. On top of maximizing your Roth contributions, you should consider opportunities to convert your traditional IRA funds to a Roth IRA.

When it comes to IRAs, common wisdom has long been that you'll be in a lower tax bracket when you retire, so you might as well take the deduction now and pay the tax later. But what if your IRA and 401(k) savings itself ends up being responsible for moving you into higher tax brackets in retirement?

> On top of maximizing your Roth contributions, you should consider opportunities to convert your traditional IRA funds to a Roth IRA.

We have worked with many new clients who come to us in the well-off but unfortunate position of having poured all their savings into traditional tax-deferred savings accounts. These lifelong savers often end up with millions in tax-deferred accounts when they retire, yet they are left stunned at the tax burden. For example, if your combined tax-deferred retirement savings is valued at $4.5 million, your annual required minimum distribution (RMD) at age 70½ will be $164,000.[1] This puts you in the third-highest tax bracket of 32%,[2] with your required distribution possibly increasing every year! Beyond RMDs, retirees needing to live off $200,000 annually from their IRAs will find themselves in the 2nd highest tax bracket of 35%.

[1]https://www.aarp.org/work/retirement-planning/required_minimuum_distribution_calculator.html
[2]https://www.bankrate.com/finance/taxes/tax-brackets.aspx

A Roth IRA conversion strategy can solve these problems and help you pay significantly less tax.

For example, between your first retirement year and age 70 (when RMDs begin) you can systematically convert dollars from your IRA into a Roth IRA each year. Without earned income these are typically low-income years, providing you with a great opportunity to "fill the bucket" of lower 12% or 22% tax brackets with Roth conversion dollars. With taxable income rates of 12% up to $77,000 for joint filers (after a $24,000 standard deduction) you could have room to convert tens of thousands of Traditional IRA dollars each year at the lowest tax rate, especially if you have taxable investment accounts that can supplement your living expenses. The result is that you can have a tax-efficient liquidation strategy and avoid ever being pushed into top tax brackets, now and forever!

2. Not Creating A Personalized Social Security Claiming Strategy

Social Security benefits can be claimed anytime between ages 62 and 70. However, the timing of when you choose to collect these benefits will impact the amount of benefit you receive.

Full retirement age (FRA) differs based on the year you were born. For those born in 1937 and earlier, FRA is 65. After 1937, two months is added each year until FRA becomes 66 for those born between 1943 and 1954. Starting in 1955, two months a year is added again until the FRA becomes 67 for those born in 1960 or later.

If you wait until you reach full retirement age to begin collecting your Social Security benefits, you will receive your full Primary Insurance Amount, which is the full benefit that you have earned, based on your highest 35 years of earnings.

Early eligibility begins at age 62, and if you choose to claim early, you will receive a reduced benefit. Your basic benefit is reduced a fraction of a percent for each month you begin receiving benefits prior to full retirement age, up to 30%.

You can also delay benefits until age 70. Your benefit will increase by approximately 8% per year for each year past FRA you delay. Increases are calculated monthly so you can claim at any time between FRA and your 70th birthday and receive a prorated increase.

Source: Social Security Administration

Year born	Full retirement age	Benefit at 62	Benefit at 65
1943-1954	66	75.0%	93.3%
1955	66 and 2 months	74.2%	92.2%
1956	66 and 4 months	73.3%	91.1%
1957	66 and 6 months	72.5%	90.0%
1958	66 and 8 months	71.1%	88.9%
1959	66 and 10 months	70.8%	87.8%
1960 or later	67	70.0%	86.7%

3. Retirement Too Soon

Whether you were forced to retire earlier than you had planned or you made the decision on your own, retiring before you are truly ready can cause plenty of regret. In fact, 30% of retirees admitted they would gladly re-enter the workforce if a job became available.[3]

If you decided to retire prior to turning 65, you probably had to find pre-Medicare coverage, which is often quite a bit more expensive than an employer-sponsored plan. By waiting until you turn 65, you will qualify for Medicare and not be forced to obtain other health insurance to cover you during the transition.

Financially, the earlier you retire the fewer years you have to save and the longer you will have to live off of your money. If your finances are keeping you up at night or you are living at a lower quality of life than you are used to, you may regret retiring when you did.

Working even a few years longer can provide these valuable benefits:

- More time to accumulate savings
- Health insurance coverage through your employer
- Purpose and identity
- Stronger mental and physical health[4]

[3] https://www.cnbc.com/2014/08/21/retirees-go-back-to-work.html
[4] http://www.medicaldaily.com/planning-retiring-early-consider-these-5-health-risks-first-247669

4. Not Having A Retirement Bucket List

Free time is a major perk of retirement, but when you go from working full-time to not working at all, it can be a shock to your system. Saying goodbye to your career, your colleagues, and your routines can cause anxiety and depression. But if you plan ahead to fill your time with activities that will fulfill you, you can avoid the negative emotions that can come with this life transition.

Do you want to know what activities result in a fulfilling retirement? A BMO study on retirement planning reveals that retirees who stayed busy and active, pursued independence, and volunteered their time were satisfied with their life. One study of retirees even found that those who volunteered 200 hours a year were less likely to develop high blood pressure. The takeaway here is to be intentional about your time in retirement. Make a list of things you want to do, places you want to go, and people you want to spend time with, then strategically map out the details so your goals become a reality. It's easy to lose your identity when you say goodbye to your career, but filling your time and venturing out into new territory will help you build a new identity and give you something to look forward to.

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IS THERE TOO MUCH RISK IN YOUR PORTFOLIO?

Risk is not just the game of world domination. When it comes to your money, taking on too much risk can mean not reaching your goals. While there are many elements of investing we can't control, such as industry or political events that cause markets to go haywire, there are certain steps we can take to reduce risk and our exposure to loss.

What Is Investment Risk?

Risk is fundamental to investing. Even "investing" by hiding cash under your mattress involves the risk of losing your purchasing power to inflation. Risk makes markets, and without risk there is no return. Markets are driven by risk-seeking investors who aim to be compensated for the risk that they take in the form of investment return.

Some risks are avoidable while others are not. Avoidable risks include a lack of diversification, where a single company-specific event can have a massively detrimental impact on your savings. For example, you may hold too much of your company's stock in your 401(k) plan. Or you may be far overinvested in a single sector of the economy, instead of being more globally diversified.

[5]https://commercial.bmoharris.com/resource/wealth-management/whats-your-retirement-game-plan/
[6]http://psycnet.apa.org/journals/pag/28/2/578/?_ga=1.177767717.1281536077.1488342343

On the other hand, unavoidable risks are those that occur because our world is ever-changing, volatile, and we can't predict everything. As much as we believe in our own investment abilities, the world is uncertain and many risks are simply out of our control.

Risk is also personal. Your risk tolerance is based on your experience, stage of life, and personality, so it's not going to look the same as any other investor's.

How Much Risk Do I Actually Need To Take?

To address avoidable risks in your portfolio, start out with a simple question: "How much risk am I willing to take to afford the things I want."

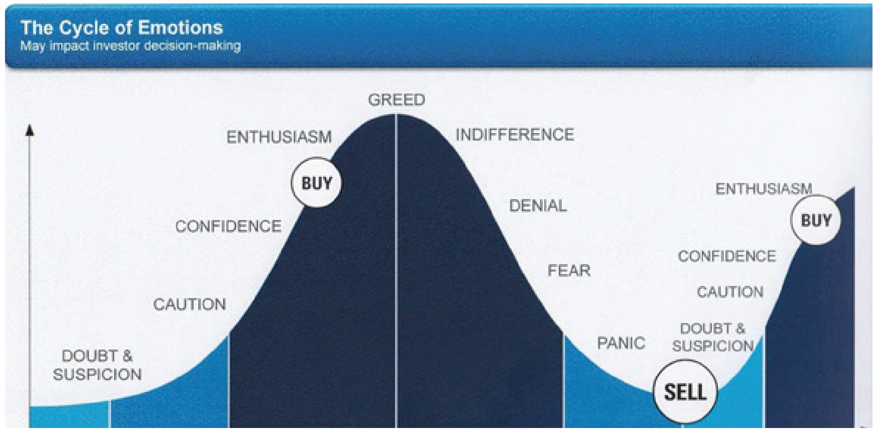
If you are planning for retirement, or funding a specific goal such as a child's education, you can calculate the expected cost of your goals. Then work backwards to find the return and subsequent risk required from your portfolio to match that future expense. You may even find that you are not taking enough risk; perhaps you're on a path where you won't be saving enough or growing your portfolio enough to live the lifestyle you had hoped for.

Knowing how much risk you need to take, you can design a portfolio that is aligned to your risk tolerance and goals. But sticking with that portfolio to reap the benefits over the long-term is another animal entirely.

Once you understand your personal appetite for risk, you can set your investment expectations accordingly.

The Cylcle of Emotions

The cycle of investment emotions shown below, has driven some people to financial ruin. As Warren Buffett said, "Be fearful when others are greedy and greedy when others are fearful." What most people do instead is shown below:



Source: Quantitative Analysis of Investor Behavior, 2015 DALBAL,< Inc.

When markets are at euphoric highs, it is only natural for greed to kick into high gear, making us feel like we want to take even more risk to really make a killing. But this kind of emotional investing can lead to disaster. [1]

[1] http://www.qidllc.com/wp-content/uploads/2016/02/2016-Dalbar-QAIB-Report.pdf

Conversely, when markets are at their lows, fear keeps us from taking on new risk even when investment opportunity is at its highest. In fact, the fear of loss is so powerful that individuals have been shown to feel the pain of loss more than twice as intensely as any joy felt from an equally sized gain (see the Nobel Prize winning work of Daniel Kahneman in his book *Thinking, Fast and Slow*). Buy low, sell high is certainly much easier said than done.

Avoiding The Big Mistake

The cycle of emotions has a very real impact on your investment success, but its effects can be mitigated. The question we need to answer is: "How far can my portfolio fall before I capitulate and make an emotionally-charged poor decision?" This is the scenario we want to avoid, and it tells us how much risk you can handle in your portfolio.

Once you understand your personal appetite for risk, you can set your investment expectations accordingly. This will minimize the situations where you feel the pain of loss forcing your hand into a poor investment decision to sell and abandon your long-term plan. You'll be less likely to constantly struggle with the feeling that you are missing out when things are good and worrying about loss when things are bad.

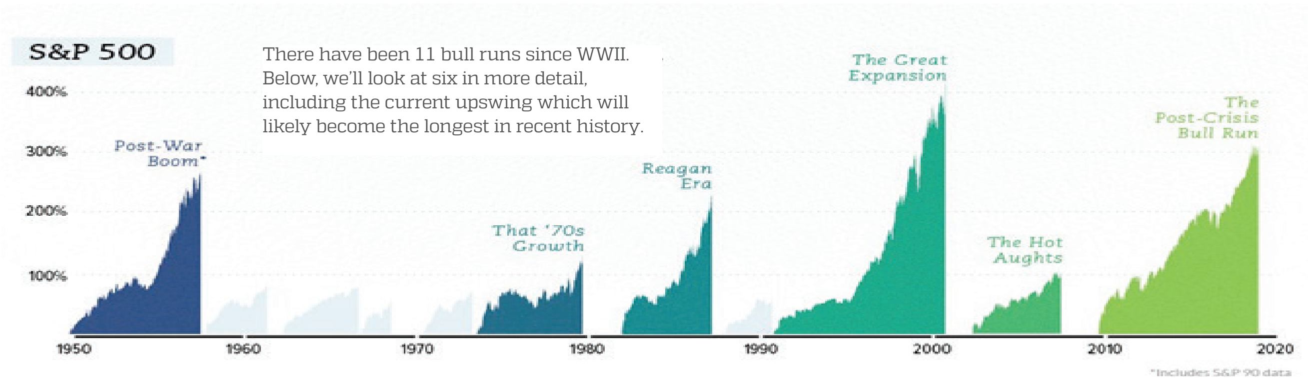
Putting It All Together

It may be possible to understand how much risk you should take to fund your goals and understand how much risk you are comfortable taking. The next step is to find a balance between the two and align your portfolio accordingly. To go one step further, write it down as a first commitment toward putting a plan in place for your portfolio and your goals. .

A LOOK AT THE SIX LONGEST BULL MARKETS

The current bull run may soon become the longest in the modern era

Source: Visual Capitalist



S&P 500 surged 418% over the 9.5 years between November 1990 and March 2000, making it the longest bull market in modern history. By the time you are reading this, the famed 90's bull market may lose its title as the "longest" in the modern era. That's because the current bull market will take over the claim to fame in late August 2018.

While the current bull run is making a run as the longest on records, it only ranks fourth in terms of anualized return.

Here's a closer look at the top six bull markets since WWII:

Provided by VisualCapitlaist.com, here are the events largely credited with "ending" each bull market – though of course, it is always a long and muddled series of events together which are part of the cause.

Rank	Bull Market	Dates	Months	S&P 500 Return	Annualized Return
1	Great Expansion	'90-'00	114	418%	19.0%
2	Post-Crisis Bull Run	'09-'18*	112*	302%	16.7%
3	Post-War Boom	'49-'56	86	267%	20.0%
4	That '70s Growth	'74-'80	74	126%	14.1%
5	Reagan Era	'82-'87	60	229%	26.7%
6	The Hot Aughts	'02-'07	60	101%	15.0%

What Ended Each Bull?

1. The Great Expansion

The bull run lasted 9.5 years, ultimately capitulating when the Dotcom Bubble burst. From the span of June 1999 and May 2000, the Fed raised interest rates six times to try and get a "soft landing". Market uncertainty was worsened by the 9/11 attacks that occurred the year after year after

2. The Post Crisis Bull Run

Still ongoing...

3. The Post War Boom

This boom occurred after WWII, and it ended in 1956. Some of the sources we looked at credited the launch of Sputnik, Eisenhower's heart attack, and the Hungarian Revolution as possible sources of market fear.

4. That 70'S Growth

The Iranian Revolution, the 1979 Energy Crisis, and the return of double-digit inflation were the factors blamed for the end of this bull.

5. The Reagan Era

This bull market had the highest annualized return at 26.7%, but the party came to an end on Black Monday in 1987 – one of the most infamous market crashes ever. Some of the causes cited for the crash: program trading, overvaluation, illiquidity and market psychology.

6. The Hot Aughts

Stocks did decently well during the era of cheap credit and rising housing prices. However, the Financial Crisis put an end to this growth, and would cut the DJIA from 14,000 points to below 6,600 points..

HISTORY OF U.S. TRADE WARS

A look at seven historic trade scirmishies, and how they compare to the current trade war

Source: Visual Capitalist

Here are some of the more interesting U.S. trade wars, and how they compare to the current spat that is evolving with major trade partners.

1. Smoot-Hawley, 1930

Imposed during The Great Depression, the Smoot-Hawley Act is almost universally recognized by economists and economic historians as triggering a trade war that exacerbated the recovery.

2. Chicken Friction, 1963

Factory farming of chicken in the U.S. ended up catching European farmers off guard. French and German authorities responded by imposing tariffs, and the U.S. then taxed imports, such as trucks and brandy.

3. Jabs at Japan, 1981

Japan's mid-century rise led to the country becoming an export powerhouse. As Japanese cars flooded the U.S. Market, intense pressure eventually led to the signing of a Voluntary Export Restraint (VER) agreement that limited sales in the United States. During this same timeframe, the two countries also squabbled about other goods like electronics, motorcycles, and semiconductors .

4. War of the Woods, 1982

The Canada-U.S. Softwood Lumber dispute kicked off in 1982, but it inevitably resurfaces in the news every few years.

5. Pasta Spat, 1985

The U.S. was displeased with the level of access for citrus products in Europe, and put a tariff on pasta products. Europe retaliated by taxing walnuts and lemons from the States.

6. Battle of the Bananas, 1993

Another agricultural trade war, the Battle of the Bananas occurred after Europe slapped tariffs on the import of Latin American bananas. Many of these companies, owned by Americans, were not impressed. In response, there were eight separate complaints filed to the World Trade Organization (WTO). They weren't resolved until 2012.

7. Steel Salvoes, 2002

These were the last major U.S. steel tariffs introduced before the more recent ones. The goal was similar: to revive the steel industry in the country. However, after a period of brief stability, jobs continued to decline. The European Union responded by taxing oranges exported from Florida.

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