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It's Spring and we have a few graduations! Congratulations to Mary Kate Roccato, M.D. graduating from Cooper Medical School and Maggie Roccato graduating from Merion Mercy Academy. Mary Kate is beginning her residency at UC Irvine Medical Center and Maggie is off to Notre Dame. Well done!

Feedback has been very positive regarding our enhanced Financial Planning service. Let us know when you are ready to start your plan (we need to keep Angela busy).

Finally, we congratulate Nick for making the leap from being our number-crunching Intern to our number-crunching Analyst. **Enjoy the warm weather, Dan & Team.**

Spring - Summer 2018

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A Love Affair..........with Dividends!

Remember 2015? We do. Following a strong performance in 2014, the markets gyrated their way through the Greek debt crisis, Syrian war, upcoming US elections, etc. At one point, the S&P 500 Index was down nearly 10%. But after all the drama, the market finished 2015 with a whimper (-0.73%).

So far, 2018 feels a lot like 2015. Will we finish the year flat? Down? Despite many expert prognosticators, no one really knows. Despite the uncertainty, there a few things we can probably count on:

1. The markets will be **volatile** . Why? They usually are! Wars, interest rates, politics, bad weather, etc. will all take a turn at playing villain.
2. The usual **hucksters** and D-list actors will use fear to push complex, expensive products (e.g. gold, annuities, life settlements, etc.).
3. Investors will fall in (and out) of love with new beaus. Puerto Rico bonds? Cryptocurrencies? Wall Street will make sure that something will capture the imagination - and wallets - of investors.
4. **Dividends will likely comprise a significant portion of overall stock returns.**

A Love Affair with Dividends

Long-time members of our client family are well aware of our love affair with dividends. Who thought you couldn't love stocks? So when it comes to engineering the stock allocations in our portfolios, we consistently favor **"value"** stocks. This means we over-weight dividend paying stocks. Why?

1. Historically, dividends have accounted for approximately 41% of all stock returns (Morningstar). This is compelling.
2. In down markets, re-investing dividends allows investors to purchase more shares. Conversely, investors buy less shares as stock prices increase. This is straight out of the Warren Buffett playbook.
3. Dividend stocks tend to hold up better during down markets (Investopedia).
4. When it comes to taxes, dividends are more investor-friendly.

Of course, Dividend stocks are not perfect. Any stock, including a blue-chip Dividend stock can suffer a loss (remember Eastern Airlines?). And Dividend stocks will usually lag their sexier counterparts, "growth" stocks, during Bull markets. Who thought stocks could be sexy? But despite their risks, we like the idea of "collecting rent" for our clients. Hence, they remain a core part of our investment strategy.

A Consistent Strategy

Regardless of short term market gyrations **, we maintain a clear, consistent investment strategy based on diversification, asset allocation and a focus on investments that generate income.** At a tactical portfolio management level, we continuously "rotate" assets among industry sectors, especially those that pay above average dividends such as pharmaceuticals, telecom and utilities in an effort to generate portfolio income.

We can't control market performance. And 2018 could very well end up like 2015. But rest assured, we will try to squeeze every penny we can for you. That's our commitment to you.

Thank you for allowing us to serve you, Dan & Team.

See disclaimer on final page

Did you know that 94% of all workers are covered under Social Security?

Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017

Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

Questions

1. Can you receive retirement and disability benefits from Social Security at the same time?

a. Yes

b. No

2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?

a. Reduced by 30%

b. Reduced by 40%

c. Reduced by 50%

d. Your benefit will not be reduced

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

a. 6%

b. 7%

c. 8%

4. Monthly Social Security benefits are required to be paid by which of the following methods?

a. Paper check only

b. Paper check, direct deposit, or debit card

c. Direct deposit or debit card

5. Are Social Security benefits subject to income tax withholding?

a. Yes

b. No

6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?

a. Less than 12 months since you've been receiving benefits

b. Less than 18 months since you've been receiving benefits

c. Less than 24 months since you've been receiving benefits

Answers

1. b. No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

2. d. Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

3. c. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

5. b. No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

6. a. If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.

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Four Points to Consider When Setting a Retirement Income Goal

Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.[1]

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can expect to live 18 more years.[2] To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about $265,000 just to pay for basic medical expenses in retirement.[3] And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another $69,000, on average, to the out-of-pocket costs.[4]

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated $50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than $67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

[1] EBRI Issue Brief, March 21, 2017

[2] NCHS Issue Brief, Number 293, December 2017

[3] EBRI Notes, January 31, 2017

[4] HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016

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Why is it important to factor inflation into retirement planning?

Inflation is one of the key factors you will need to consider when planning for retirement. Not only will the cost of living rise while you're accumulating assets for retirement, but it will continue to rise *during* your retirement, which could last 25 years or longer. This, combined with the fact that you will not likely earn a paycheck during retirement, is the main reason your portfolio needs to maintain at least some growth potential for the duration of your retirement.

Consider this: If inflation runs at 3% (which is approximately its long-term average, as measured by the Consumer Price Index), the purchasing power of a given sum of money would be cut in half in 23 years. If it averages 4%, your purchasing power would be cut in half in 18 years.

A simple example illustrates the impact of inflation on retirement income. Assuming a consistent annual inflation rate of 3%, if $50,000 satisfies your retirement income needs this year, you'll need $51,500 of income next year to meet the same income needs. In 10 years, you'll need about $67,195 to equal the purchasing power of $50,000 this year. And in 25 years, you'd need nearly $105,000 just to maintain that purchasing power![1]

Keep in mind that even a 3% long-term average inflation rate conceals periods of skyrocketing prices, such as in the late 1970s and early 80s, when inflation reached double digits. Although consumer prices have been relatively stable in more recent decades, there's always the chance that unexpected shocks could cause prices to spike again.

So how do you strive for the returns you'll need to outpace inflation by a wide enough margin both before and during retirement? The key is to consider investing at least some of your portfolio in growth-oriented investments, such as stocks.[2]

[1] This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Note that these figures exclude the effects of taxes, fees, expenses, and investment returns in general.

[2] All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.