January – February 2020

Money Moxie®

Smedley Financial Services, Inc.®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

Trusted Since 1982

Investing Is Not Like Buying A Refrigerator

Some people think that investing has been simplified so much that it is like buying a refrigerator: You spend a few hours researching the options and then select a product that will last for 10 years. While there have been significant improvements to simplify investments, there is still a world of knowledge that is needed to select the right investments for your personal goals and time horizon. Buying the wrong refrigerator won't wreck your retirement, but buying the wrong investment might.

Inside of a 401(k), the participant is the money manager. Because of this, the options had to be simplified. This has given rise to retirement-ready investments that have target dates based on when a participant will retire. We applaud this because most investors don't know the nuances of investing in large-cap companies vs. small-cap companies, etc. The closer you get to retirement, and the more assets you have, the more important investment selection becomes.

Investment selection is less like picking out a fridge and more like being the forecaster for a home improvement store. That forecaster must determine beforehand how much is needed of each product, for each department, at the right time of year. If the quantity or timing is significantly off, then it puts the store in jeopardy of decreasing revenue and potential bankruptcy. Because of this complexity, a forecaster needs to have advanced training, education, and experience.

With investments, not only do you have to understand the individual investment, but you also must understand how it is impacted by the different market sectors, business cycle movements, politics, and the world economic environment.

At SFS, we are lucky to have a chief investment strategist, James Derrick, who has his MBA, CFA, and two decades of money management experience. He managed investments through the downturns of 2000-2003 and 2007-2009 when the S&P 500 lost 55% and 57%, respectively.* In fact, other financial advisors hire James and SFS to manage their clients' money.

Don't risk your retirement nest egg. You aren't buying a refrigerator. Choose a money manager with the foresight, knowledge, and experience to help protect you against the downturns while allowing your assets to grow in the good times.

Mikal B. Aune, CFP®
Vice President of Wealth Management

*The S&P 500 is often used to represent the U.S. stock market. One cannot invest directly in an index. Past performance does not guarantee future results.

Upcoming Calendar

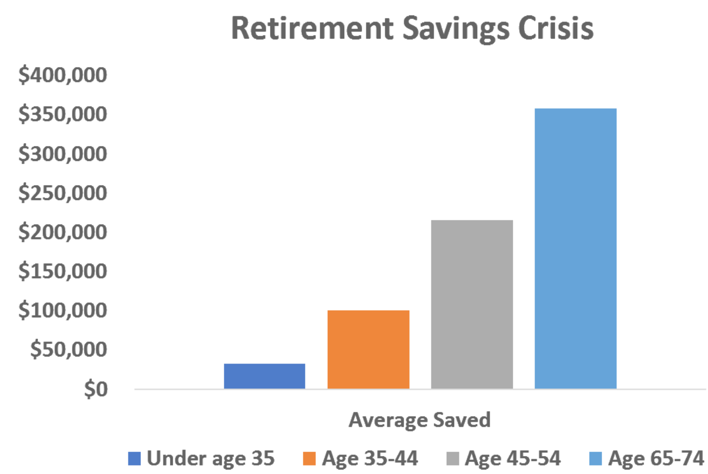
- **The SFS Market Outlook Webinar** will be held on February 20th at 11:00 AM MST. We will be covering the financial impact of the Coronavirus, the economy, and the 2020 election. Go to JoinWebinar.com and enter webinar ID 504-941-283 and your email address. Register to also receive the recording.

- **The 5th Annual *Just For Women* Conference** will be on Friday, May 8th. Mark your calendar and plan to join us for a fun morning.

How Do You Stack Up?

By Sharla J. Jessop, CFP®

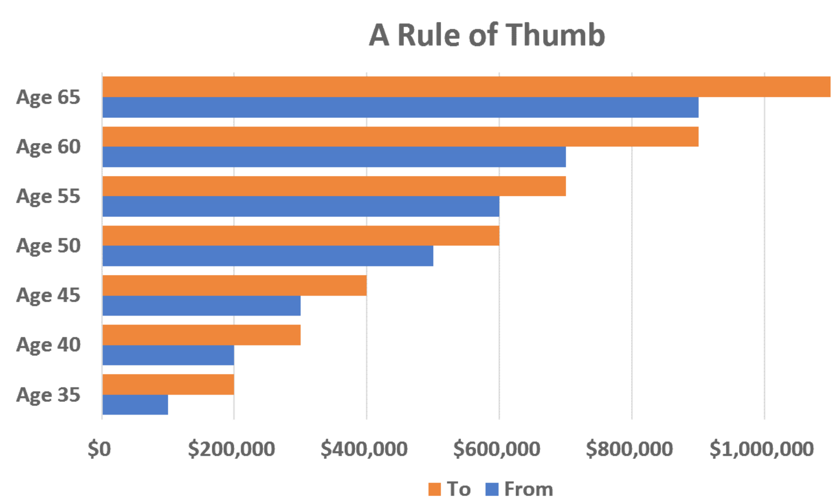
It is no secret that Americans need to save more for retirement. The amount of money an individual or couple will need to carry them through their retirement years varies based on numerous factors, including age, standard of living, location, expected fixed income sources – like a pension and Social Security – and more. Everyone needs to know where they stand based on their specific needs. Have they saved enough, or do they need to save more? Here are some shocking statistics that illustrate that Americans are falling short.



Source: Federal Reserve's Survey of Consumer Finances

This chart shows the average retirement savings account balance of active savers. Averages can be deceiving as there are many balances far above the number shown. The issue lies in the realization that there are a significant number of accounts with balances far below the average. This creates a future financial crisis for these savers. Living today on the income they receive is doable. However, it will be almost impossible for these savers to maintain their standard of living in their elder years if they continue at the same rate of saving.

We are not proponents of Rule of Thumb planning. We prefer planning using actual key information specific to each client's situation. But, in this situation, it helps us illustrate a reality. This chart shows how much someone should have in their retirement savings based on age. The amount shown is a multiple based on a $100,000 income.



Rule of thumb would say, based on the desired income amount you want in retirement, you should have saved a multiple of your current income. The amounts illustrated are multiples of a $100,000 income. For example, if you are age 45, you should have already saved 3 to 4 times your income. If you are 65, you should have saved 9 to 11 times your income. How are you doing?

The good news is there is always hope. If you are not on track, regardless of your age or situation, we can help create a roadmap to get you back on track, one step at a time. Contact one of our Wealth Advisors for more information.

2019 Climbing a Wall of Worry

By James R. Derrick Jr., CFA®

Major Markets Update						
Market	**Index**	**2019**	**2018**	**2017**	**2016**	**2015**
Large U.S. Stocks	S&P 500	28.9%	- 6.2%	19.4%	9.5%	-0.7%
Small U.S. Stocks	S&P 600	20.9%	- 9.7%	11.7%	24.7%	-3.4%
Global Stocks	Dow Jones Global	23.7%	-11.7%	21.8%	5.8%	-4.0%

Climbing a wall of worry is a common phrase in the investment world. The implication is that the market will move higher as it overcomes uncertainty. In 2018, the U.S. stock market had its worst December since 1931. It followed with the best returns since 2013. The American consumer kept things going in the economy at just above 2 percent while interest rate cuts and asset purchases by the Federal Reserve made all the difference for the markets.

Don't Fight The Fed

In 2018, the Federal Reserve (Fed) was on auto-pilot: raising interest rates unless something went wrong. By December 2018, the Fed's actions spooked investors.

By July 2019, the 2-year government bond paid a higher interest rate than the 10-year. That is what we call an inverted yield curve. The short-term rates are somewhat controlled by the Fed. The long-term rates are more driven by investors. So, the inverted curve is the result of investors believing that the Federal Reserve is making a mistake by keeping short-term rates too high. Over the last 50 years, the Fed has never been so quick to react as it was in 2019. This very well could have helped us avoid a recession in 2019-2020.

The Fed seems willing to do whatever it takes to keep this steady economy going, but the Fed is also going to try to stay out of the way in an election year. I expect it will take a large change in the economy to entice the Fed to make any changes to interest rates.

After three interest rate cuts last year, the Fed really may not have to engage in more stimulus in 2020. The impact of those cuts is likely to trickle down into the U.S. economy this year.

More Slow Growth: No Recession

The U.S. economy has averaged 2-3% economic growth for the last 10 years. This trend is likely to continue. Corporate earnings in the United States ended 2019 near zero. Expect a bounce. However, uncertainty over global demand, trade, and politics will probably continue. Once again, economic growth will rely heavily on American consumers.

Coronavirus: Watch For a Peak

Coronavirus has spread incredibly quickly through China, and around 2.3 percent of those who become infected, die of the disease. The World Health Organization (WHO) declared it a global health emergency on January 30, 2020.

Of recent outbreaks (Ebola, Zika, & SARS), SARS seems the best comparison. SARS spread more slowly. The World Health Organization did not declare it a global crisis until the number of people infected peaked (March 12, 2003).

In 2020, the Chinese government and the WHO have acted more quickly to contain Coronavirus. If successful, infections should peak in February. If efforts fail immediately, it seems likely that, just as with SARS, Coronavirus will be on the decline by March.

2020 Election Years: Positively Volatile

By James R. Derrick Jr., CFA®

It may turn out to be a typical election year. I expect stocks to be up in 2020, but in the single digits—much less than in 2019. Investors dislike uncertainty, and 2020 will be filled with plenty of political unknowns. Despite some extra ups and downs, election years tend to be positive for stocks. Hang in there.

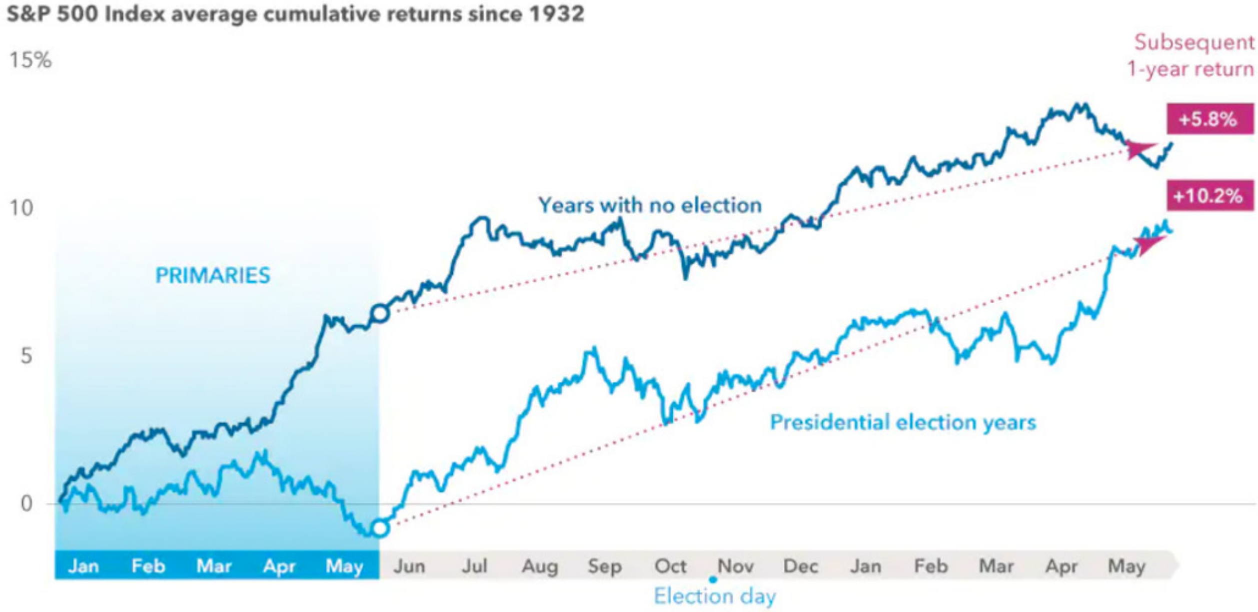
A lot of Republicans could have missed out from 2009 to 2016. Similarly, Democrats would have missed the 2017-2020 markets. The rule for election volatility is that it comes sooner than most investors expect. Most summers have a bit of a slowdown. In election years, that drop usually hits in spring.

The classic October drop is typical even in election years, but don't get caught saying, "I'll invest when the election is over." The market usually begins to climb a couple of weeks before the final vote.

Some rotation in the markets may develop as we learn who the candidates will be. Still, the most likely outcome is gridlock in Washington, with the Republicans staying in control of the Senate and the House controlled by Democrats. Regardless of your political opinions, gridlock is usually good for stocks because large companies plan 10+ years ahead of time and prefer a predictable business environment. SFS

Volatility during primaries is often followed by strong returns

S&P 500 Index average cumulative returns since 1932



Sources: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from 1/1/32-11/30/19. Years without an election exclude all years with either a presidential or midterm election. Subsequent one-year return calculation begins on May 31 each year, a proxy for the end of primaries. Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. Returns are in USD.

*Research by SFS. Data from the Federal Reserve Bank of St. Louis. Investing involves risk, including the potential loss of principal. The S&P 500 index is widely considered to represent the overall U.S. stock market. One cannot invest directly in an index. Diversification does not guarantee positive results. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based upon changing conditions. This is not a recommendation to purchase any type of investment.

A Newlywed's Guide to Financial Success

By Leah Nelson

I'm sure most people reading this article have heard that money is one of the leading causes of divorce. That can be disheartening to hear when you're planning a wedding. Being a newlywed myself, I have thought a lot about my and my husband's financial success and how to achieve our personal financial goals. I also know from observing friends and former classmates that young people often don't even know where to start when it comes to making good money choices, especially when you add another person to the picture. As I've thought about all of this, I have come up with a list of things that will help newlyweds be successful in their financial endeavors.

1. Talk about it – This first one is arguably the most important. Money is often a taboo subject, but it is important to have open communication about money, especially in marriage. It is best to talk about money before you get married, but if you haven't, talk about it as soon as possible. Make sure you both understand each other's expectations for your money. For example, let your spouse know if you expect them to talk to you before making purchases over a certain amount. It is essential to be honest with your spouse, especially about any debt you may have.

2. Build an emergency fund – Having an emergency fund should be a top priority for newly married couples. The general rule of thumb is to have 3-6 months' worth of living expenses saved up for emergencies such as a lost job, family illness, natural disaster, or major home repairs. This will bring security in case disaster strikes.

3. Design and track a budget – Start by reviewing your joint budget for the last few months and assigning dollar limits to each spending category. Remember, a budget is a work in progress. It is okay to make adjustments, especially in the first few months. Tracking your spending after creating a budget is just as important as making the budget. There are many ways to track your spending. Some people use apps; some people use spreadsheets; some people use the envelope method. The envelope method is primarily just using cash for your budget, and once the cash is gone, you're done spending in that category for the month. This is especially helpful in areas in which you tend to overspend. Try out a few different methods and find the one you like best.

4. Save for retirement – This one is not something newlyweds often think about. Retirement can seem like it is so far in the future you don't need to worry about it. However, starting to save for retirement when you are young really gives you a leg up. Having time on your side helps you take advantage of compounding interest. Even if you start small, saving something toward your retirement early on can have a big impact. Contributing to your employer-sponsored 401k plan is an excellent place to start.

A Neglected Tax-Saving Strategy: Qualified Charitable Distributions

By Jordan R. Hadfield

There are two types of people who complain about paying taxes, men and women. We all recognize the importance of taxes, but Gerald Barzan said it best, "Taxation with representation ain't so hot either." Yes, tax evasion is illegal, but tax avoidance…that's wisdom. Tax avoidance should also be a financial advisor's specialty. This is precisely why I'm so surprised by the number of financial and tax professionals who are unfamiliar with, or do not utilize, the Qualified Charitable Distribution.

The Qualified Charitable Distribution, or QCD, is a powerful tax savings strategy available to individuals age 70.5 and older who donate to 501(c)(3) organizations. Examples of 501(c)(3) organizations include religious, educational, and scientific organizations, public charities, and private foundations.

When you take a distribution from a tax-deferred retirement account, the distribution will be taxed at your marginal tax rate. However, if the distribution is from an Individual Retirement Account (IRA) and is sent directly to a 501(c)(3) organization, it qualifies as a QCD and becomes tax-free.

For example, Elliott has a required minimum distribution from her IRA of $3,000. Her tax rate is 20% federal and 5% state. Elliott plans to donate $3,000 to a 501(c)(3) organization this year. If Elliott takes the $3,000 distribution and pays the tax, she'll receive $2,250 from her IRA. When she makes her $3,000 donation, she will be $750 short.

However, Elliott has a wise financial advisor who tells her about the QCD. So, she sends her $3,000 IRA distribution directly to the charity, and Elliott doesn't pay tax on the distribution at all. Elliott's required minimum distribution is satisfied for the year, she donates the desired $3,000 to charity, and her wise financial advisor saved her $750 in taxes.

Every year, we educate financial and tax professionals regarding the QCD and how to report it on the form 1040. Too often, we see it reported incorrectly. If you make a QCD and do not report it accurately, you won't receive the benefit. If Elliott or her CPA doesn't understand how to report her $3,000 QCD, she'll pay an extra $750 to the IRS, and the QCD won't save her anything.

On tax form 1040, line 4a asks for "IRA distributions," and line 4b asks for the "taxable amount" as shown below.

Elliott took a $3,000 distribution from her IRA and will write $3,000 on line 4a. She will then subtract her QCD amount from 4a and write the balance on line 4b. In Elliott's case, she will write $0 on line 4b, and no tax will be due from her IRA distribution. A tax penny saved is a tax-free penny earned.

Please help us get the word out regarding the Qualified Charitable Distribution. If you, your CPA, or your friends have questions about QCDs or other tax-saving strategies, please contact us. Tax planning is our specialty, and tax avoidance is the goal.

4a	IRA distributions	4a	$3,000.00	b Taxable amount	4b	$0.00

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Employers and Self Employed
- Health Insurance
- 401(k) Plans

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