September – October 2019

Money Moxie®

Want To Retire Early?

You'd Better Start Planning Now.

Smedley Financial Services, Inc.®
TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

Trusted Since 1982

Your Success Is Our Success

Dear valued clients and friends,

I was asked by a prospective client why it was so hard to find a good financial advisor. They had been around the valley visiting several of the financial advisors they heard on the radio. They heard about us through a friend and decided to give us a chance.

My response was, "Just because someone screams the loudest, doesn't mean they're the best." Many firms rely on high marketing budgets to keep new people coming in the door. However, these large expenses can often lead to higher expenses for the clients and often leads to high turnover.

We strive to keep our costs low and to maintain our client relationships for the long run. With this intent we don't spend a lot of money on marketing. We strive to provide incredible service, holistic financial plans, and elite active management. We realize that if we take great care of our clients, they may tell their friends about us, and those friends may become clients. Ninety percent of our growth comes from client referrals.

We realize that trust is not easily earned and harder to keep. Thank you for choosing Smedley Financial as your private wealth manager.

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

Identity Protection Services–Worth the Cost?

By Shane P. Thomas

It feels like every other week another company announces that their systems were hacked and personal information has been stolen. We are then inundated with ads for identity theft protection services. Do these services really protect our personal information, and are they necessary?

(1) Identity theft protection companies promise to watch over our personal information, usually for a fee. Though many companies offer limited services for free, a service that provides alerts, watches all three credit bureaus, includes identity theft insurance, or offers identity restoration services often charge between $9 and $30 a month, depending on the services.

These services alert you to a potential problem so you can hopefully get it resolved before it gets out of hand. They may also provide restoration services, which can save you many hours and phone calls to clear up your name.

(2) You could monitor your own personal information by keeping an eye on your credit reports and tracking your credit score through various websites for free. This needs to be done often to be effective.

(3) The only thing that can truly help prevent identity theft is freezing your credit with each credit bureau: Experian, Equifax, and Transunion. This helps prevent new loans or accounts in your name, and there is now no cost to do it. However, if you have a freeze on your credit and are applying for a loan (home, car, cell phone, etc.), it can take several days to "thaw" your credit before you can apply.

Are these services worth it? Well, it depends on your situation. Check with organizations that you are already doing business with. Costco, AAA, banks, credit unions, credit card companies, and the credit bureaus themselves offer free or discounted solutions. Whatever you choose to do, do something to watch your credit.

Early Retirement

A Lifestyle Change

By Sharla J. Jessop, CFP®

Retiring early has a whole new meaning for Financial Independence, Retire Early (FIRE) adopters. With a goal to retire from the 9 to 5 rat race, those willing to make sacrifices can transition to a new lifestyle as early as age 35.

The idea behind FIRE is living a frugal lifestyle so that you can create financial independence. This means living on much less and saving 50% to 70% of your income for the future. At the same time, the money you live on is focused on paying off debt as quickly as possible. Frugal habits would include eating in, shopping at thrift stores, buying food and supplies on sale, and enjoying at-home entertainment. It's not as easy as it sounds.

Truth be told, most FIREs have had high-paying careers or were entrepreneurs. Their high incomes allowed them to save a great deal of money and still live comfortably while preparing for an early retirement. Not easy for the average American worker earning $60,000 or someone who lives in an area with high cost of living.

FIRE adopters are not retiring in the traditional sense. They are merely focusing their time on things that they enjoy and making a difference in the world. The majority have created income by blogging, teaching, or keeping a part-time job that offers lifestyle flexibility and health insurance benefits.

You may think this sounds great. How do you get started? Before you jump on board, there are things to consider. Most of us get insurance through a group plan where some of the cost is paid by an employer. For most, leaving the workforce before age 65 (Medicare age) means finding insurance in the marketplace. This can be costly because you pick up the full tab.

Leaving a lucrative job early also means you are missing out on your peak earning years. As we immerse ourselves in a career, we gain knowledge and experience, making us more valuable to employers and increasing our income over time. FIRE's take the employer out of the picture. Their value is based on what they can market and deliver.

Saving for the future is also a concern. Without continued contributions to retirement-type accounts, like 401(k), IRA, or Roth IRA, your future income and lifestyle can be at risk. Forfeiting an employer match or profit-sharing contribution means you will need to bump up saving for future needs. This can all be overcome with good planning and meticulous monitoring. If you think the FIRE idea is for you, here are ideas to get you started:

(1) Determine why you want to achieve Financial Independence and Retire Early. What does that look like once you reach the goal?

(2) Figure out where you stand now. What is your net worth (total assets minus liabilities)?

(3) Where is your money going? You need to track how you spend every dollar.

(4) What expenses can be cut to reach a 50 percent savings rate?

(5) Pay off high-cost debts first.

(6) Build an emergency fund – six months' worth of net expenses – in case you get in a financial bind.

(7) Take full advantage of tax advantaged savings accounts: IRAs and Roth IRAs.

(8) Find a side job to bring in extra money that can help pay off debt and build savings.

(9) Get advice from a Smedley Advisor to help develop a plan and track your progress.

Medicare Open Enrollment

By Mikal B. Aune, CFP®

Medicare open enrollment is right around the corner. If you are already using a Medigap Plan or a Medicare Advantage Plan, now is the time to make a change if you want. The open enrollment period is October 15th through December 7th every year.

Who needs to pay attention?
Those currently using a Medigap Plan, Medicare Advantage Plan, prescription drug plan, or if during your initial enrollment period, you opted not to purchase additional coverage up and above traditional Medicare Parts A & B.

What is Medicare?
Traditional Medicare is composed of three parts: A, B, and D. Part A is coverage for hospitals and doesn't have monthly premiums. Part B is coverage for doctor visits, etc. and the base cost is $135.50 per month for most people. This typically comes out of your monthly Social Security check. Part D is prescription drug coverage, which is purchased through a third party and costs around $35 per month.

What is the difference between a Medigap and Medicare Advantage Plan?
Medigap is a supplemental insurance that complements traditional Medicare. It covers most of the "gaps" or holes that are not covered by parts A & B. You can go to any doctor that accepts Medicare.

Medicare Advantage Plans combine Parts A, B, D, and Medigap into one package. They operate like traditional insurance where you are tied to a specific network.

What else should I know about Medigap?
Medigap Plans are lettered from A-N with costs that vary depending on the benefits provided. The most popular plan has been F. However, Plans F and C are being phased out in 2020 as plans are no longer allowed to cover the Part B deductible of $185. If you are currently on one of those plans, you can stay on it, but new enrollees will have to choose a different plan. Plan G is gaining in popularity because it covers everything Plan F covers, except for the Part B deductible. In many instances, the Plan G costs are lower and can be a better value than Plan F anyway.

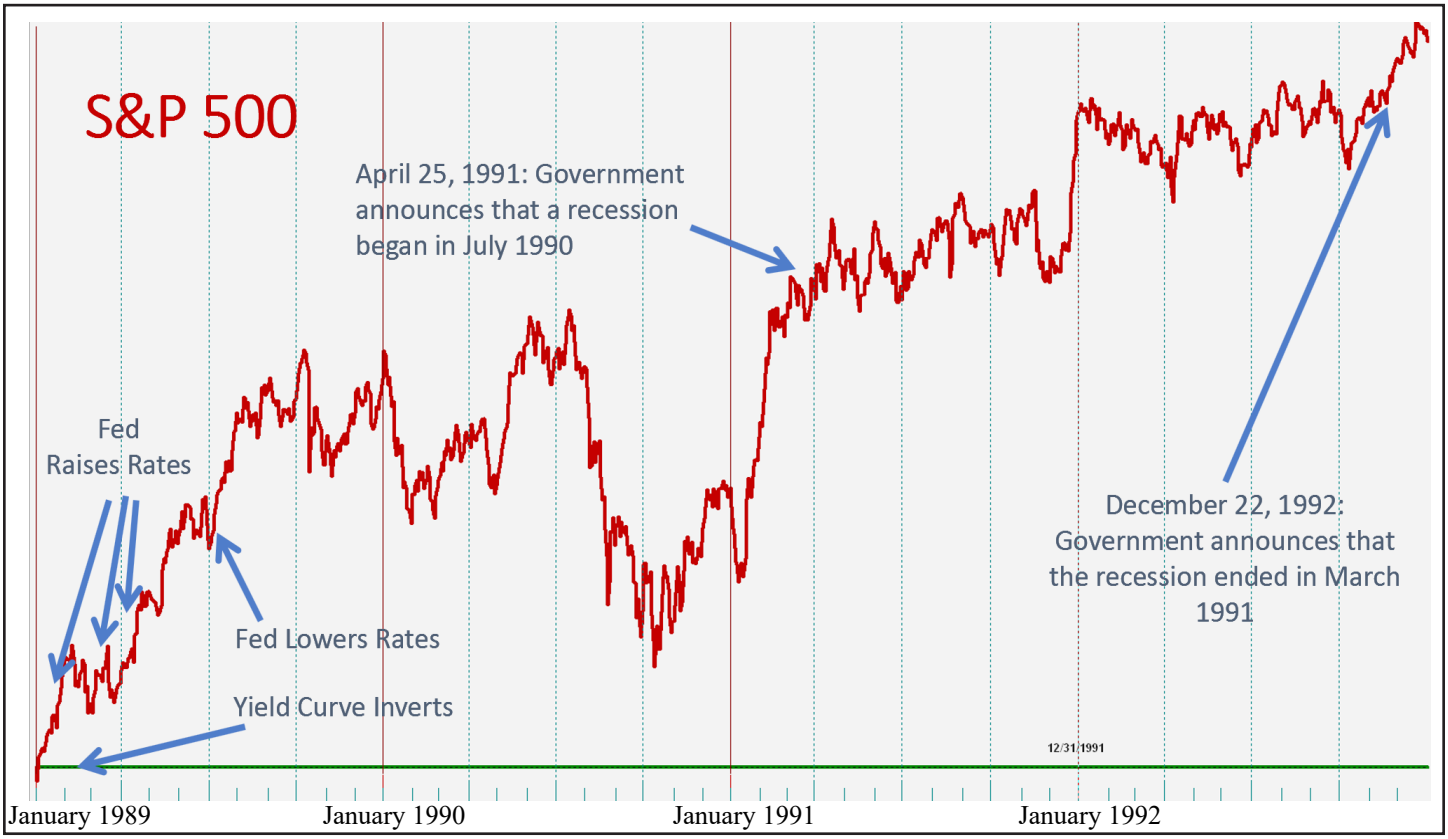
People that have comprehensive Medigap Plans typically pay more on a monthly basis, but usually don't have to pay very much out of pocket. If your health is ok to poor and you see a doctor regularly, then this may be a good option for you.

Medigap Benefits Chart	Plan A	Plan B	Plan C	Plan D	*Plan F	Plan G	Plan K	Plan L	Plan M	Plan N
Medicare Part A Coinsurance & Hospital Costs (Up to an additional 365 days after Medicare benefits are used) are used up	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Medicare Part B Coinsurance or Copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	***100%
Blood (First 3 Pints)	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Part A Hospice Care Coinsurance or Copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Skilled Nursing Facility Coinsurance	✗	✗	100%	100%	100%	100%	50%	75%	100%	100%
Medicare Part A Deductible	✗	100%	100%	100%	100%	100%	50%	75%	50%	100%
Medicare Part B Deductible	✗	✗	100%	✗	100%	✗	✗	✗	✗	✗
Medicare Part B Excess Charges	✗	✗	✗	✗	100%	100%	✗	✗	✗	✗
Foreign Travel Emergency (up to plan limits)	✗	✗	80%	80%	80%	80%	✗	✗	80%	80%
					** Out of Pocket Limit		$5,560	$2,780		

What else should I know about Medicare Advantage plans?
Medicare Advantage Plans, also called Part C, will often cost less than Medigap Plans. It typically has deductibles and co-insurance like traditional insurance through an employer. How it works is Medicare gives an insurance provider a certain amount per year to manage your expenses. If the insurance provider manages your expenses for less, then they make money. Because of that, monthly costs vary significantly with some plans as low as $0 per month.

People that use Medicare Advantage Plans usually pay less monthly, but typically have more out of pocket expenses. If you are in good health and don't regularly see a doctor, then this may be a good option for you.

What resources could help me research my options?
The website www.medicare.gov has a plethora of information. You can use it to sign up for Medicare or any of its Parts A, B, C, or D. You can also find contact information for Medigap providers. If you would like to speak to a person, you can call 1-800-Medicare (1-800-633-4227).



Doomed For Recession?

Why the yield curve is an accurate and less useful indicator

By James R. Derrick Jr., CFA®

Economic growth has been slowing, and bond yields have been falling. Now, the yield curve–the difference between long and short interest rates–has turned negative . . . an ominous sign that a U.S. recession may follow. Are we doomed?

History has shown that the yield curve does act as a warning sign for trouble ahead, but it is possible that a recession is still a year or two away. In the meantime, investments have typically done all right.

However, some investors have already thrown in the towel. They moved out of stocks. All this money must find a home, and that home in 2019 has been cash. I believe this to be a mistake.

The bright spot right now is the financial health of U.S. consumers. Representing 69 percent of the economy, consumers have less debt than they did prior to other recessions. Plus, the job market is still extremely healthy.

The greatest threat is falling manufacturing–a global problem that the trade war is making worse.

The Federal Reserve may not have the tools to fight this war. After all, rates are really low. So, will lowering them more make much difference? If the Federal Reserve can make a difference, then it is worth noting that money is cheap right now and likely to get cheaper.

Usually, the Fed raises rates even after the yield curve inverts. These rate hikes have preceded each of the last six recessions. That's 100 percent of the time.

This year is different. Not only will the Fed avoid raising rates after the inversion, but it already lowered rates before the curve even inverted. The Fed has never acted faster. It is extremely flexible to the markets in 2019. And, as the famous investor Martin Zweig advised, "Don't fight the Fed." SFS

*Research by SFS. Investing involves risk, including potential loss of principal. S&P 500 time period chosen to display sample of timing of government actions. The S&P 500 is an index often used to represent the U.S. stock market. One cannot invest directly in an index. 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.

5 Things
You Need to Know About Social Security

By Leah Nelson

1

The age you start taking benefits matters

You can start Social Security benefits as early as age 62, but that may not be your best option. If you take Social Security before your full retirement age, the amount you get per month will be reduced. For most people, full retirement age is between ages 66 and 67, depending on when you were born. If you take benefits at age 62, you will only get about 70% of your full benefit. This also works the other way around. If you wait until 70, your benefit will grow 8% per year until age 70. This can be a great way to maximize the benefit you get from Social Security.

2

You may be eligible for a benefit under your spouse's record

If you don't qualify for Social Security benefits from your own work record, you may qualify for a spousal benefit. If you are married and your spouse qualifies for Social Security, you are eligible to receive half of your spouse's Social Security amount along with your spouse receiving their own full amount.

3

Your Social Security may be taxed

Up to 85% of your Social Security could be taxable, depending on what your income is. To figure this out, take half of your Social Security and add that amount to any other taxable income you may have. That includes any money you're taking out of tax-deferred retirement accounts. If that number is above $34,000 for single filers or $44,000 for married filing jointly, then 85% of your Social Security will be taxed.

4

Social Security was not meant to be the main source of retirement income

The government did not originally intend Social Security to fully replace income for every retiree. It was only ever meant to be a supplement and cover less than half of your income needs. This means you need to make sure your savings for retirement are adequate, so you have enough income in retirement.

5

Social Security is not going bankrupt

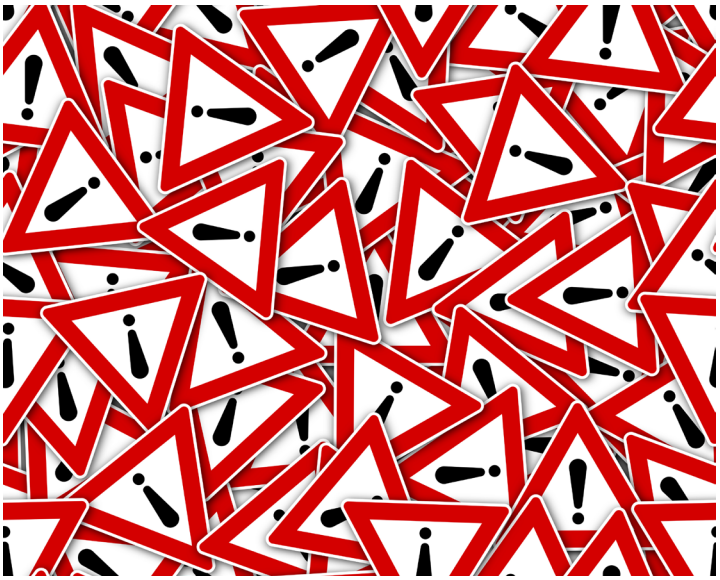
Social Security isn't going bankrupt, but things will likely be changing. Estimations say the Social Security trust fund reserves will be depleted by 2034 unless changes are made. There have been many proposed solutions. None of them are particularly attractive, but something must be done. While nothing is official yet, here are some possible solutions:

- Raising the full retirement age
- Raising the amount of income subject to Social Security tax (currently at $132,900)
- Raising the Social Security tax rate
- Reducing cost of living adjustments, which help Social Security keep pace with inflation
- Reducing benefit amounts

Are You Retired and Have a 401(k)? Read This!

By Jordan R. Hadfield

As financial advisors, our job is to help clients create wealth. Most people expect us to accomplish this through market investments. Although that does play an important role, advice regarding financial decisions outside of the market can often amount to significant savings and wealth creation. The topic covered here is one that has amounted to significant savings for many of our clients. If you are currently retired or are approaching retirement and have a 401(k), this article is for you.



When talking about financial planning, there are two main phases of life: the accumulation phase (pre-retirement) and the distribution phase (post-retirement). The 401(k) is a fantastic savings vehicle for those in the accumulation phase. If you are currently working, a 401(k) is great! Employers often contribute to this type of account by way of a company match or profit-sharing because the 401(k) annual contribution limit is higher than that of other retirement accounts. Plus, paycheck deductions make saving easy.

If you are already retired, a 401(k) has some weaknesses that you should be aware of. The cost associated with these may be a lot more than you realize.

• When you take a distribution from a 401(k), you do not have the ability to choose which assets you sell. A distribution will require selling from all investments equally. This is a huge disadvantage as you may be forced to sell from the wrong investment at the wrong time. Proper distribution planning requires one to analyze the individual investments and sell those that make sense based on current market conditions and performance expectations. Unfortunately, the 401(k) does not give you this ability.

• If you have Roth 401(k) contributions, you will be forced to take a distribution at age 70.5. This can have large negative consequences to both future tax-free earnings and your ability to pass on wealth tax free. Roth IRA accounts will not force a distribution regardless of age.

• If you are over age 70.5 and donate to 501(c)(3) organizations, you cannot take advantage of a great tax-savings strategy called a Qualified Charitable Distribution (QCD). The tax savings from QCD's can be thousands of dollars every year. Examples of qualified organizations are churches, universities, humane societies, hospitals, etc.

In many cases, we recommend that clients roll their 401(k)'s into IRA's at retirement. An IRA is a much better retirement distribution vehicle given its flexibility and its greater selection of investment options. It also does not suffer from the weaknesses mentioned above. 401(k) rollovers are tax-free and easy.

We work hard to ensure our clients make good financial decisions. Often, small changes have a large impact. We have seen investors greatly benefit from a 401(k) rollover. If you have a 401(k) that you can't contribute to due to separation of service or retirement, we highly recommend you meet with us to discuss if a rollover is in your best interest.

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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