FINANCIAL CONNECTIONS
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THOUGHTS ON THE CURRENT ENVIRONMENT

As you may recall, markets do not like uncertainty—they tend to go down. With the Brexit vote over 100 days old and the Fed claiming interest rates will rise soon (which it has been saying almost all year), one would expect this type of uncertainty to lead to significant declines. It hasn't. The markets are up this summer.

This bull market has continued since 2009. Like the proverbial train, the economy says, "I think I can, I think I can," and continues to move steadily forward. Unemployment remains low; America's trade deficit shrank in August. Economic growth in the second quarter (the most recent data) was revised upward from 1.1% to 1.4%, owing to higher corporate spending and more investment dedicated to research and development.

Consumer spending is up, maybe as a result of higher wages.

The Federal Reserve Bank of Cleveland estimates the chances of a recession this time next year at a low 11%. It predicts 2016 GDP (Gross Domestic Product) will grow at 1.5% — slow, but comfortably ahead of negative numbers that would reflect an economic downturn.

International stocks have not fared as well. The U.S. still is the "safe haven" for growth. Your portfolios are diversified and include international stocks. While the last few years have seen U.S. stocks outperform international, a recent *Forbes* column showed that since 1970, foreign stocks outperformed domestic stock 50% of the time. So one never knows when the pendulum will swing the other way. When it does, your portfolios will participate.

The Social Security Administration released a new publication, "What Same-Sex Couples Need to Know." www.socialsecurity.gov/same-sexcouples Financial Connections can also help you. Give us a call.

If you would like to discuss investment strategy, create or update your plan, please get in touch with us.

DISABILITY INSURANCE FOR YOUNG PROFESSIONALS

Many adults with young children think life insurance is the most important way to protect their family. While the risk of loss of life is important to cover, there is a higher probability of becoming disabled.

Insurance carriers are creating policies that fit the financial situation for today's young families. At a recent conference, Jill heard about a new professional program. It looks at such professions as medical or veterinary residency, engineering, etc., whose members will ultimately earn a higher salary. They are able to buy a disability policy based on what they "will" earn as opposed to what they are being paid while training and completing their education.

Another item of interest: A rider can be attached to a disability policy that pays off student loans should the insured become disabled. The cost is very reasonable. On the sample Jill viewed, it was $32/month.

As you know, Financial Connections being fee-only does not sell insurance. As such, however, we do work with companies designed to work with us to provide a better cost and experience to our clients. We would be happy to work with you or your children on this subject.

TAX RATES ARE STILL LOW

Some years ago, we published historical Highest Marginal Income Tax Rates in our newsletter. With all of the tax discussion during this long, long, long, long election season (anyone for requiring that campaigns start no earlier than six weeks before the election?), we thought it would be of interest to revisit the rates.

Year	Marginal Tax Rate
1950	84.36%
1960	91.00%
1970	71.75%
1980	70.00%
1990	28.00%
2000	39.60%
2010	35.00%
2015	39.60%

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CHANGES TO MONEY MARKETS

In the "old" days when interest rates were higher, money market mutual funds used to be a good savings vehicle for cash (they paid more than bank savings accounts). If you deposited $100, you purchased 100 shares at $1 each. The value of the shares remained at $1. This assumption came to a halt during the financial crisis in 2008.

No one had given much thought to what type of financial instruments were used to generate the interest paid to the customer and to maintain the share price of $1. Reserve Primary Fund loaded up on loan obligations backed by Lehman Brothers. Can you see the handwriting on the wall?

When Lehman Brothers went under, Reserve Primary Fund shares dropped below $1. The phrase for what happened is, it "broke the buck." This was probably the first time customers realized that a money market mutual fund was not risk-free or FDIC insured. Many people panicked, causing a run on other money market instruments and adding to the overall crisis.

Beginning October 14, 2016, new regulations implemented by the Securities and Exchange Commission go into effect. Yes, the government wheels move slowly.

The following is now required for money market mutual funds to ensure that shares are redeemed at $1:

- Keep 10% of assets in either cash, U.S. Treasuries, or other securities that convert to cash in one day
- Have an additional 30% able to convert to cash in one week
- Restrict investing in lower-quality securities to 3%
- Include no more than ½% in lower-tier securities from one issuer
- Ensure that lower-tier securities mature within 45 days

In the rare situation the above "safeguards" don't work and the share price falls below $1, a mutual fund's board of directors may suspend investors' ability to get their money for up to 10 days and, under certain circumstances, impose a redemption fee.

With money market mutual fund accounts barely paying any interest, bank savings accounts have been a better alternative although they offer only a miniscule return.

A DIFFERENT VIEW OF BONDS

The conventional wisdom is that we're in a poor cycle to invest in bonds because the interest paid is next to nothing and the Fed will eventually begin raising interest rates (recall that there is an inverse relationship between interest rates and bond prices. If interest rates rise, bond prices decline).

While we do invest in bonds as a strategic decision to help reduce portfolio volatility, there is another way to view the current bond environment.

The issue with any investment is not how much you "make" but rather how much you "keep." It brings into play interest rates (known as nominal yield) AND inflation rates (CPI). Interest rates minus inflation equal the *real yield*—what you keep (excluding tax issues). For example:

Security	Nominal	Inflation	Real Yield
10-year Treasury - Recent	1.5%	1.0%	0.5%
10-year Treasury - 2011	2.8%	3.0%	-0.2%

While the interest on the 10-year Treasury in 2011 was almost two times higher, after inflation it had a *negative real yield.*

A higher number jumps out as "better" even though it may not be valid. Say that inflation is 4%, and Worker A receives a salary increase of 5%. Worker B receives a raise of 2% but there is no inflation. Which worker is better off? While at first glance an increase of 5% looks better than 2%, Worker B is better off because *in real terms* Worker A receives 1%.

As we all clamor for the good old days of higher interest rates, let's recognize that they may not really be better—the inflation percentage will determine *real yield.*

MEDICARE OPEN ENROLLMENT

If you would like to change your Medicare plan, open enrollment is from October 15 to December 7. Financial Connections hired a consultant, Eileen Hamm, to assist our clients. She receives no compensation from what she recommends, so there should be no conflict of interest.

Eileen recently conducted a webinar for our clients. Below is a link to the replay. If you would like to speak with her, please let us know.

http://www.screencast.com/t/BxqcwCt4Y

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