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IPE Insights

Investments - Planning - Education

APRIL 2017

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Jim's Journal

If you were looking for action in the first quarter 2017, there was no better place to be than the stock market. Quarter one saw a fast and furious market, finding new highs in January and February on almost a daily basis. The Dow Jones Industrial Average broke 20,000 for the first time on January 25, 2017 and 24 trading days later surpassed 21,000 on March 1. The rest of March was a different story as the DOW ended the quarter at 20,663.22. The minor pullback in March seemed to be attributed to a 25 basis point rate increase by the Federal Reserve and the halt to healthcare reform in Congress. The DOW has continued its move down in April as I write this newsletter but the rest of that story is incomplete. It will be told in its entirety when the second quarter ends in June. Despite the setback in March, U.S. markets provided solid returns in the first quarter of 2017.

The "Trump Bump" or "Trump Trade", as many have called it, began after the Presidential election last November and continued into the New Year. The perception of a more business-friendly environment with less regulation, tax reform and the possibility of increased infrastructure spending appeared to provide the stock market with a green light to keep climbing upward- at least for the time being. As we have seen in recent weeks, with the temporary end to health care reform, all of the President's agenda will not be accomplished overnight. No President ever gets everything they want; the reality of most campaign promises is that they still need to make it through Congress. That can be a difficult task. However, we are far too early into a new administration to draw any real conclusions.

The actual market returns for the first quarter of 2017 are as follows: the S&P 500 produced a solid +5.5% return thru March 31. The DOW was not far behind at +4.6% and the small cap Russell 2000 ended at +2.1%. While the S&P, DOW and Russell all produced very nice gains, the 1st quarter accolades went to the NASDAQ composite. It was the clear winner in our domestic indexes with a very impressive gain of +9.8% (Source: Wall Street Journal 4-3-17).

In most cases, mutual funds reflect the positive or negative returns of the major indexes and the 1st quarter 2017 upheld that symbiotic relationship. The average U.S. Stock fund was up +4.8% for the quarter. After posting negative returns through most of 2016, the Health/Biotechnology sector emerged from its hibernation as the clear winner in 1st quarter 2017 with a +10.9% return. Science & Technology was a close runner up at +10.7%. While most funds had gains during the quarter, the biggest loser for quarter one was the Natural Resources sector with a negative -4.8% average return. Among world stock funds, the Latin America sector posted an average return of +13.1%. This was the top category leader for both domestic and world funds. The average Taxable Bond Fund was up a respectable +1.4%. High-Yield Muni's led all bond categories with a somewhat surprising return of +2.4% (Source: Wall Street Journal 4-10-2017).

While musing about the stock market, its ever changing direction and the pundits who comment on it, I am reminded of a story I read about Winston Churchill (1874-1965). Mr. Churchill was once asked what qualities were required of a politician, the indomitable Churchill replied that they needed…*the ability to foretell what is going to happen tomorrow, next week, next month, and next year. And to have the ability afterwards to explain why it didn't happen.* I think that we could easily remove the word politician in the above quote and insert "stock market pundits." Many of the talking heads on CNBC and the other media attempt to tell us what is going to happen in the market down the road. Unfortunately, they are also frequently wrong. The market forges its own path influenced by a multitude of factors over which we individually have no control. With study, historical patterns can be discerned in the market but on any given day there are no 100% guarantees on what can or actually will happen. We know that the market goes up over the long term; however, as they age, many retirees do not have the "long term" to recover the inevitable downturns anymore. Not having any idea on when to be in or out of the market can cause great pain to a retirees (or anyone's) net worth. I am very happy to have found a small number of outstanding analysts who can provide me with guidance on market entry and exit points.

Changing direction for the moment. Many long-time readers of this newsletter know that I am a very big fan of Social Security. Understanding the Social Security puzzle is a key to optimizing benefits. Since many Americans have not saved enough for retirement, Social Security benefits make up a significant percentage of a retirees income. In some cases, it is the only income a retiree will have. It is, therefore, important to understand how Social Security works before filing for your benefits. The article on the reverse page of this newsletter is a primer on "What you need to know before you claim." The presentation was created by Social Security Solutions, Inc. I use their software in my practice to analyze claiming strategies for clients, and have personally used the software to develop a claiming strategy for myself. An understanding of how Social Security works and a good claiming strategy can make a huge difference in the amount of benefits you will receive down the road. I suggest that you keep the article as a future reference if you are nearing retirement age.

A few updates before closing. Spring is in the air and I have already started planting chestnut and fruit trees on my farm in northern Michigan. I'm looking forward to bountiful crops down the road. I will also be attending a financial conference in San Diego the first week in May. And, a special welcome to the SpikeTraders who are now receiving my newsletter. Spring has finally arrived in Michigan and many other parts of the country.

Enjoy the beauty and wonders of nature as it emerges from its winter cocoon.

Take good care!!!

Disclaimer: This newsletter is written for general information purposes only and should not be considered specific investment advice. Please make an appointment to discuss recommendations for your personal financial plan.

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What you need to know before you claim…

(From a presentation created by Social Security Solutions, Inc.)

I'm not sure many folks associate Social Security with a "strategy." We talk about strategy in terms of games like chess, or for sports like football. Social Security is no different. Just like winning a chess or football game involves careful planning, so should your Social Security claiming plan. There are literally hundreds of claiming combinations, but the one that's best for your situation will analyze all of the household factors that play a part in your benefits. Getting it right is critical: you are locked into your choices with little opportunity to change your mind, and you could be leaving a LOT of money on the table. Our presentation today is designed to give you the basics you need to know and consider as you plan. But there is no way we can give you the answers here. This is complicated and you need advice. The Social Security Administration agents are prohibited by policy from giving you advice. They can answer some of your questions – and by the way, you will often receive inaccurate information from them--, but they can never give you advice. The following are the five most common questions Social Security Solutions, Inc. hears about Social Security benefits:

Will Social Security be there for me when I'm ready to claim? - The media has created a great deal of hype about Social Security. Sadly, the political charge attached to Social Security carries with it the ability to instill fear in Americans when most experts believe that no fear is warranted. Social Security is recovering well with the economy, and recent changes that we'll discuss have shored up the system.

Each year the Social Security Fund Trustees release their report about the state of the fund. In 2015, the report indicated that Social Security was strong and recovering. The prediction was that there would be enough in the fund to pay out promised benefits until about 2034; after that, about 79% of all benefits could be paid out – and this is if nothing were done to shore up the system.

Additionally, trust fund income was determined to be ahead of expenses by $9.2 billion, and the projection was that income would exceed expenses through 2019. Recent changes to the law are expected to further increase the state of the fund. All in all, Social Security is just fine. There is no need to panic or to claim benefits early in fear they will go away.

What about recent changes I've heard about? - The Bipartisan Budget Act of 2015 was signed on Nov. 2, 2015. It created a few changes to Social Security. The main changes impact 2 ways to claim benefits – or strategies. These two strategies were commonly called "file and suspend" and "filing a restricted application." They were rules within Social Security law that made it possible for Social Security beneficiaries—particularly married couples – to get more in benefits.

However, even without these two strategies, there are still plenty of ways to claim benefits in a way that maximizes your cumulative lifetime benefit and protects your family against longevity risk. And there is definitely no need to panic about your benefits.

Will Social Security be enough to live on in retirement? - The average retired couple reports spending the following amounts on what they deem as necessities: Shelter/Utilities- $11,967, Transportation- $8,214, Clothing- $1,287, Healthcare- $5,540, Food- $5,793. The annual total is $32,801 (not including taxes). Some of you will spend more in retirement; others will spend less.

The average payout from Social Security is $1,300 per month or $15,600 per year. To repeat again, this is the average. Some will receive more and some will receive less. Given that our necessities total a fairly large amount, it makes sense to get as much from Social Security as possible. Your retirement may last 30 years or more. Have you saved enough to last? Maximizing your benefits means that when your savings may be running low later in life, you will still be receiving the most in Social Security.

How much will I receive? How much you will receive in Social Security benefits is based on a number of factors. First, it's based on how much you earned over your lifetime. The more you earned, the greater your benefit will be – up to the maximum benefit amount. In 2017, the maximum full retirement benefit is $2,687. In order for your full retirement benefit to be $2,687, you must be turning 66 in 2017 and have earned the maximum Social Security wages for basically every year of your career.

Your benefit amount is also determined by the age at which you apply for benefits. If you apply earlier than your full retirement age, they will be reduced. If you apply at age 62, you will only receive 75% of your full retirement benefit. If you apply after your full retirement age, you will get more. It pays to collect benefits later.

Benefits are also impacted by your marital status. Married couples can use the rules of spousal benefits to their advantage. Also, survivor benefits for widows and widowers have their own set of rules that may be advantageous to you. Finally, if you are divorced, you may be eligible for a divorced spouse benefit on your ex-spouse's earnings record.

What's the best time and way for me to claim benefits? When you should begin your Social Security benefits depends on a number of factors: marital status, age, life expectancy, total assets available, liquid assets, need for income, desired standard of living, planning to continue work and survivor needs. In addition to your marital status, age, health, and longevity, the other factors listed relate to your financial portfolio. Some of you may need income early, while others may be more concerned about having the highest income possible later when your savings may be running low. Some of you may plan to work longer than others. Regardless, when you begin benefits should be looked at holistically with your complete financial picture so that you can make the best choice for your situation.

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