THE H GROUP, INC. | SALEM

February 2016 / Vol. 25, No. 1

Financial Perspective

Strategies for a Down Market

The stock market just finished a down January, and so far, February isn't going much better. As much as we all would love to wave a magic wand and make the financial markets "behave," we can't. It's going to do what it's going to do in response to investors' collective perceptions about interest rates, the global economy, and the prospects for each company in the major indexes. Keep in mind that these collective perceptions aren't always right.

So, if one cannot control the market, what's a person to do? The answers depend upon your individual circumstances, but here are nine common situations and our suggestions for them.

Are you currently taking systematic withdrawals from an account?

Strategy:

- Are you taking more than you need? If possible, reduce the amount of your withdrawals which may mean lightening up on your discretionary spending.
- Support your cash flow needs from non-stock market sources, such as bank accounts, money market funds, or short-term bond funds.

Are you currently taking Required Minimum Distributions (RMDs)?

Strategy:

- Rather than take the entire amount now, postpone it until later in the year when the market is hopefully higher. There is the risk that it won't be higher later, so a more prudent approach may be to take equal monthly distributions over the rest of the year.

Do you need a withdrawal for a large purchase, remodel, vacation, or a gift?

Strategy:

- Postpone the purchase or gift if possible.
- Consider a lower cost option for the purchase.
- With respect to gifts, remember that your long-term financial security comes first, otherwise you may be a burden to your family later.
- Utilize non-stock market sources if you have them.
- Spread your withdrawal out over a period of time so that you aren't taking it all when the market may (or may not) be at its lowest. This is dollar-cost averaging* in reverse.
- Consider tapping a line of credit or vehicle financing in this low interest rate environment.

Do you have low cost-basis holdings in your portfolio?

Strategy:

- If you have holdings that have decreased in value, this could be a good time for tax purposes to sell them and switch to a more tax-efficient portfolio or to a lower risk portfolio.

Are you adding to a 401-k or other investment account?

Strategy:

- Think of this as an opportunity to buy low.
- Consider accelerating your account additions to take advantage of the down market.
- Not sure if this is the bottom? Dollar-cost average* your investment over a period of weeks or months.

Do you plan to retire this year?

Strategy:

- Rethink your timing. Another year of work may increase your Social Security and pension payments, decrease the amount of withdrawals from your portfolio, and give you an opportunity to buy low by adding to your 401-k.

Continued on page 3

**Dollar-cost averaging (DCA) is a strategy of investing a recurring fixed dollar amount over a period of time. When share prices are high, fewer shares are purchased. On the flip side, when share prices are low, more shares are purchased. This systematic approach to investing can take the emotion out of investing. It works the same way in reverse when making withdrawals. When share prices are low, DCA reduces the risk of taking a single large withdrawal at or near the market bottom. DCA in either case does not guarantee a profit, especially in a flat market.*

Ron Kelemen, CFP® • Katherine Suchan, CFP®
Larry Hanslits, CFP® • Mary Way, CPA, CFP®
Brenna Baucum, CFP®

Special 25th Anniversary Edition!

INSIDE

THE H GROUP INC©
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

Providing Fee-Only Wealth Management and Creative Planning for Your Family, Business and Estate

500 Liberty Street SE
Suite #310
Salem, OR 97301
(503) 371-3333

www.TheHGroup-Salem.com
Salem@TheHGroup.com

Thinking Beyond Costs, Returns, and Internet Advice

"You could pay $2,000, and sometimes much more, for a financial adviser to develop a full-blown financial plan. Or you could spend an hour cruising the Internet. Thanks to the proliferation of online calculators, it's now possible for ordinary investors to piece together their own lifetime financial plan."—18 Steps to a New Financial Plan, *Market Watch,* January 4, 2016.

Seriously? Do you really think you can plan the last third of your life in one hour on the web, following an 18 step program that takes you to multiple sites that do not integrate the many moving parts and priorities of your life? It takes us trained professionals with years of experience and robust integrated software much longer than 60 minutes.

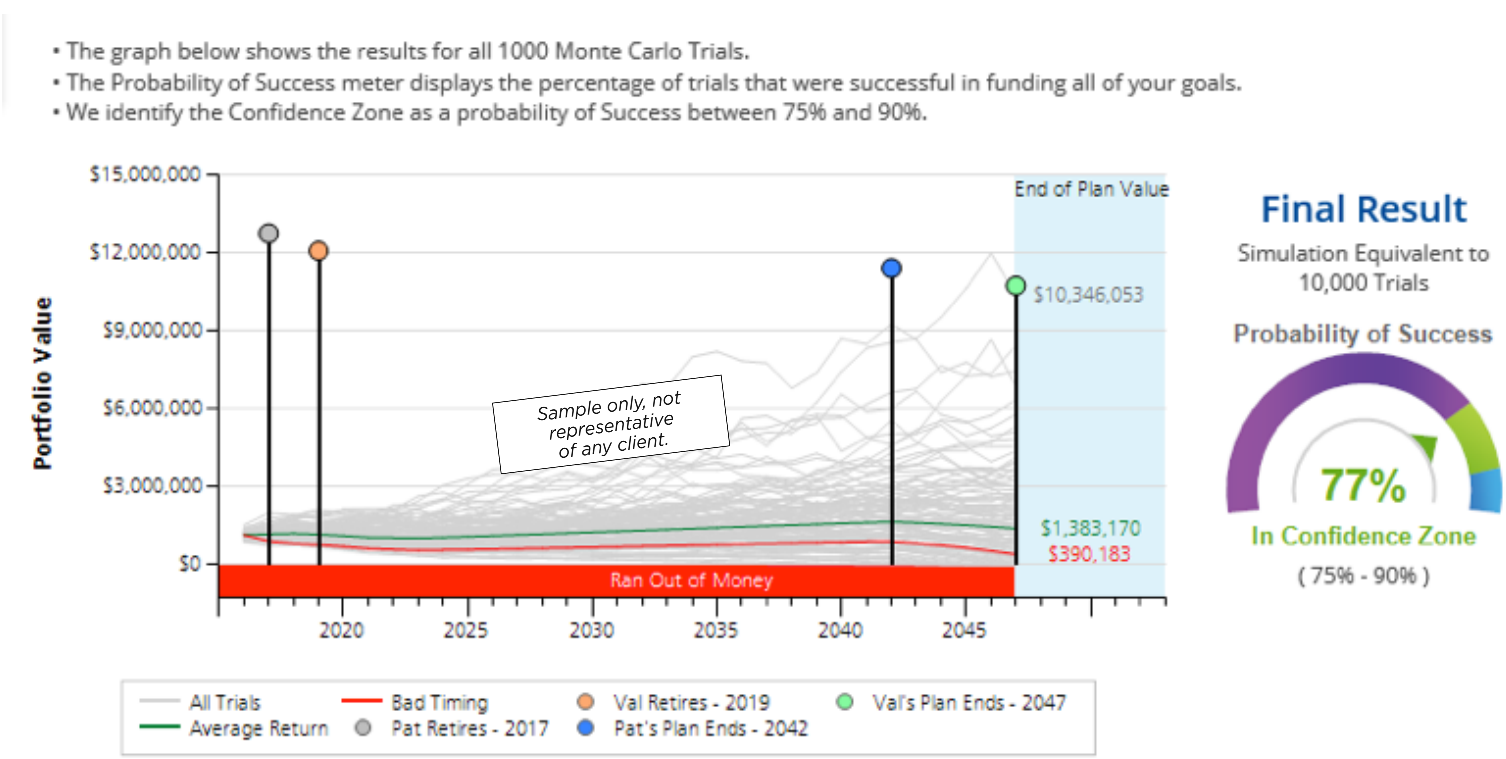
Unfortunately, the siren's call of low-cost everything and do-it-yourself investing (DYI) gets louder at times when Americans need more—not less—help navigating the complex financial world. If investment performance at the lowest possible cost is the only criteria that mattered, then other planning objectives would have no role in calculating one's rate of return over the years. These include non-investment-related things such as goals prioritization, health care planning, Social Security strategies, family obligations, risk tolerance, debt management, estate planning, pension options, tax avoidance, education planning, and more.

Two researchers have attempted to quantify the added return financial advisors bring to traditional portfolio management. In a dense 28-page paper entitled *Alpha, Beta, and now...Gamma,* David Blanchett and Paul Kaplan of Morningstar found ***that individual investors can add approximately 1.6% annually to returns by simply making more intelligent planning decisions across five areas typically not addressed when looking purely at portfolio returns and investment costs.*** While this paper should be taken with more than a grain of salt, financial planning addresses much more than just the five mostly investment-related criteria mentioned in the study many of which cannot be quantified. Also, the study made no mention of the value of a steady hand at the helm during times of turbulence.

Like our clients, we believe in the value of the advice we provide, both for stand-alone plans and the planning we provide in the course of our ongoing portfolio management. ***We want to keep our advice cutting edge, yet grounded; thorough, yet understandable. Above all, we want it to be integrated with our clients' many moving parts.***

To that end, we are migrating to newer and more comprehensive, state-of-the-art planning software that cannot be found on any online calculator. It does everything our other software did, and much more. Most of all, we love the easy-to-read graphics and the capability to display side-by-side "what-if" scenarios. We think you will agree, and we look forward to showing it off in upcoming client update meetings and in new planning engagements.

And as for those 18 steps involving multiple websites? The Internet is excellent at handling data and distributing information; only fair at dispensing appropriate knowledge; and very poor at giving advice based on all the relevant factors. ***Quality advice can only come from the wisdom, experience, and face-to-face human interaction with caring professionals. Why leave the last third of your life to chance and the internet?***



Strategies for a Down Market… *Continued from page 1*

Are your accounts broadly diversified?

Strategy:

- If so, chances are that your portfolio is doing better than the stock market indexes and the index funds that track them. Usually when stocks go down bonds do better. If you have a high mix of bonds in your portfolio, some of the strategies above may not be as relevant.

Are you not as comfortable with volatility now that you have experienced it?

Strategy:

- Try to tune out the financial noise and limit your consumption of news in general. Most of what we worry about doesn't happen.
- Don't check your account values frequently.
- Meet with us to discuss your risk tolerance and adjust your portfolio accordingly.
- Remember, the most comfortable low-risk portfolio may not meet your long-term goals. As we like to say, there is a tradeoff between sleeping well now and eating well in the future.

Would you like to get out of the market now and get back in later when "things feel better"?

Strategy:

- Given the wide swings in the stock market on any given day, our strategy is to just stay put.
- Timing the stock market requires two well-timed and executed decisions—when to sell and when to get back in again. Very few investors succeed at this.
- The time to be get back in will be when things are at their worst, perhaps worse than they are now. If you are fearful of the markets now, why would you think that you will be more courageous and disciplined to pull the trigger to get back in at the bottom?

Perhaps most of these situations don't apply to you. ***If so, remember to apply a very fundamental strategy for a happy life: focus upon what you <u>can</u> control. When it comes to investing that includes your spending, savings, and how you react to financial news.***

Practicing What We Preach

We recommend that clients set aside some time every year to review and set goals. We do the same. Every January since 1998 our Team meets for a full day to review our accomplishments and disappointments of the past year, track our progress on longer term goals, discuss ways to improve client service, and set goals for the future. It is usually one of our most productive days of the year for us, and this year was no exception. We encourage you to set aside a day, or even part of a day, to set and review your personal and financial goals. We can help you with that by giving you some framework questions and context for your goal tracking.

Working hard and having fun at our annual retreat at Broadway Commons

Getting to Know Katherine

Katherine Suchan, the newest member of our team, continues to settle into our office and the Salem community. She enjoyed meeting many clients and professionals at our reception last month, and she looks forward to becoming better acquainted in the months ahead. She and husband Duane are renting a townhouse and plan to buy a home in Salem later this year. Duane works as a medical technologist for a new company in Salem. As the weather improves, they hope to become more familiar with the area through a few of their favorite fair weather pastimes: flat water kayaking, bicycling, and geocaching. They've enjoyed the pleasant contrast between Salem and Eugene and welcome your ideas about Salem's must do's, see's, and eats'.

The Team Advantage™

Larry Hanslits, Brenna Baucum, Katherine Suchan, Mary Way, and Ron Kelemen and are independent CERTIFIED FINANCIAL PLANNER™ certificants. They jointly serve their clients as a team with over 100 years of combined experience. They work on a fee-only basis and do not accept any third party compensation or finder's fees. Their practice focuses on wealth planning and investment management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., an independent fee-only registered investment advisory firm with 11 professionals in five offices with over $700 million under active management.

About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron's and Mary's in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, and is an adjunct professor of financial planning at Oregon State University.

About Brenna Baucum, CFP®

Brenna joined the practice in 2013, and received her CFP® designation in 2015. She is a member of the Rotary Club of Salem, the Women's Leadership Group, Salem Young Professionals, the FPA Mid-Winter Conference Committee, and a board member of the Chemeketa Community College Foundation.

About Katherine Suchan, CLU, CFP®

Katherine joined the practice in 2016, following 20 years of experience in Eugene and five in Portland. With the Chartered Life Underwriter (CLU) designation, she has additional expertise in life insurance planning for individuals and businesses.

About Mary Way, CPA, CFP®

Mary joined the practice in 1995. She is also a non-practicing CPA with 16 years' experience in banking, business, and finance. She is President of the 185-member Rotary Club of Salem, and like Ron, a past president of the Willamette Valley Estate Planning Council.

About Ron Kelemen, CFP®

In practice since 1981, Ron is the author of *The Confident Retirement Journey*. He is active in Rotary, CASA, and serves as a board member for Capital Manor and the Medical Foundation of Marion and Polk Counties.

Page 1 photo courtesy of Caren Ann Jackson

Team Update

We started 2016 with a new advisor, Katherine. We held our annual retreat at Broadway Commons and hosted a fun reception at the Grand Hotel to celebrate Brenna's CFP® certification and to welcome Katherine. We also migrated to our new financial planning software (see page 2). Above all else, we've been paying extra attention to the financial markets, addressing occasional client concerns about them.

Michelle did much of the work organizing some of the things mentioned above. She enjoyed visits with family members and a trip to the coast.

Debbie's big highlight was the marriage of son Pete in early January. It went off without a hitch. Even the weather cooperated.

Katherine wasted no time settling in meeting clients and getting to know some of the professionals with whom we work. (See photo and article on page 3).

Brenna and husband Ben celebrated Christmas week in sunny San Diego, returning home in time to celebrate their 4th anniversary. She's busy as part of the committee for this year's Oregon-SW Washington FPA Mid-Winter conference in Portland.

Larry and wife Laurie hosted a very fun holiday dinner for the team at their "new" Salem home. The food was great and the gift exchange was a hoot! He is now preparing to teach the CFP® module on taxation for the OSU business school as an adjunct faculty professor. He and Mary also attended the annual Portland Estate Planning Council.

Mary is on the home stretch of wrapping up a successful year as president of the Rotary Club of Salem. She's been coordinating the various committees, organizing their February fundraising auction. Meanwhile, back at her day job, she is maintaining a full client update schedule and, in anticipation of her December retirement, making certain that long-ago client history is well-documented.

Ron went snowboarding New Year's Day, got assigned his first case as a CASA volunteer, and now serves as a non-medical member of the editorial board of *Chart Notes*, the Marion-Polk County Medical Society's quarterly newsletter. He spoke to the Mid Valley FPA in Eugene about retirement planning insights he learned while writing his book.

THE H GROUP INC®
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

The H Group, Inc. | Salem Financial Perspective
500 Liberty Street SE, Suite #310 • Salem, OR 97301

ADDRESS SERVICE REQUESTED

SMALL BUSINESS OF THE YEAR
SALEM AREA CHAMBER OF COMMERCE
2011

Dealing with Premium Shock

Following nearly two decades of flat premiums, holders of long-term care insurance policies are being faced with premium increases of 10-35% or more. One company recently petitioned the State of Oregon to raise its rates on existing policies by 114%, but the Insurance Commission denied it, reducing the increase to 35%.

Why is this happening, and what can you do about it? The why part is easy, and perhaps a very good reason to own a long-term care policy. In the mid-1990s, companies competed for market share, so they priced their premiums and issued policies without much actuarial data or claims experience. Then a funny thing happened—people actually needed long term care, and the companies realized just how expensive it was. This happened at the same time the low interest rates hurt the income on their bond portfolios. Numerous companies have exited the market by selling their book of business to the surviving companies. Those that remain must raise premiums to provide benefits to their existing policy holders.

What can you do about it? Most carriers will offer ways to modify your benefits and lower your cost. These include:

1. Removing or reducing the cost of living adjustment (COLA)
2. Lowering the monthly benefit
3. Lengthening the eliminating period
4. Shortening the benefit period.

Most contracts with COLA features had either a 3% or a 5% annual compound feature from the start. Thus, if your policy was issued 15 years ago for a $100 per day with a 5% COLA, that $100 daily benefit would now be worth $208 per day, or $6,240 per month. In our opinion, this is the likely the last cut a client should make to reduce premium costs. It's also often the first choice an insurance carrier will give you because in the long run, it's usually the most expensive for them. If you are relatively young and healthy, you might be better off resetting the new daily benefit to a lower amount and let the COLA work its magic in the years ahead.

Perhaps the most effective way to reduce premium costs is to shorten the benefit period. We now have 20 years' worth of actuarial data upon which to make a decision. According to longtermcare.gov, the vast majority of in-home and in-facility care services were for less than four years.

You wouldn't cancel your homeowners or auto insurance upon receiving a premium increase notice, so we think that your long-term care coverage also deserves careful review. Therefore, if you get a premium notice, let us help you review your alternatives.