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Financial

Empowered Future Report

Short term thoughts about long term matters

October 19, 2017

Quote of the Day:

“Maybe history doesn’t repeat itself, but it sure does seem to rhyme” – Mark Twain

Economics is dry, boring and irrelevant to my life....NOT!

RSVP for “Is Capitalism Good for the Poor?” on November 9th

We’re honored to have our next guest speaker, Dr. Gary Wolfram, renowned Professor of Economics and Public Policy from Hillsdale College, join us for our next workshop. This is how economics should be experienced! Dr. Wolfram will also join Mike in answering questions about the capital markets and current economic conditions.

Make sure to RSVP with Jenn (jennifer@altiusfinancial.com) asap. No walk-ins at the door.

They Called it Black Monday

It’s a weird thing to think that today marks the 30th anniversary of Black Monday, when the Dow Jones industrial average plunged nearly 23 percent *in one day*. That would be the equivalent of the Dow dropping to under 18,000 by tomorrow morning. I remember that day well – it was, and still is, the largest one-day percentage decline for the most widely followed stock index.

I was less than 3 years into my financial advice-giving career and my wealthiest client, who was over twice my age and had recently retired, called me in a panic at 1:15am. As were all my clients, he was naturally concerned about the state of the world but more acutely about the value of his portfolio. I did my best to calm him down using the company line – (my custodian/broker-dealer at the time was American Express). I had been a student of finance and investing for years - it’s one thing to read about markets and volatility in books and the classroom but quite another to experience it in person with someone else’s financial security being entrusted to you.

There are many lessons I learned back then and here are a few I think worth sharing on this anniversary:

- 1) Many people today don’t realize or remember the actual level of the DJIA at that point. It was in the 2600 range, due to the drop ended that year just under 2000 which represented at small gain for the calendar year and within 2 years was back above its previous high point. Today, it is almost 10x that level. The lesson here is that when you see a massive sell off, it most likely represents opportunity.

- 2) I became more independent minded. Most of Wall Street, especially when they are using proprietary investment products, have a company line that is biased toward optimism and selling the public on the opportunity. This is not wrong since, over the long term, it's been a bad idea to bet against the American economy (now the world economy as more countries have generally adopted more market based approaches). However, it's been my experience that such a company line can blind "advisors" and their clients to underlying valuations and more importantly, the client's own tolerance for risk. In over thirty years of doing this, I have the most respect for those investors who demonstrate independent thinking and often contrarian thinking. Each time I've seen valuations getting too rich, the most experience investors don't just "go to cash" but they tilt their portfolios in such a way as to be defensive. And the opposite applies, each time there are sell offs or panics, they tilt more opportunistic.
- 3) Lastly, I think experience and a historical perspective are often missing. It's estimated that less than a quarter of all traders on Wall Street today have ever even seen a bear market. This half cycle of the market has been going for a long time and makes the company line look smart but....there is always the inevitable other half of the cycle and that's where experience can make the difference between having to experience downside volatility verses having your portfolio blow up on you.

There are many purported causes for why the market plunged so much that fateful day 30 years ago and that's the thing – we can never really know what flake of snow causes an avalanche. What will be the catalyst this time and how bad will the "correction" be? No one can predict it. But we can decide ahead of time, how much volatility we are comfortable sticking with our plan on and how we'll react to it.

Millennials and Financial Planning

Every so often there are news articles and commentary claiming, "this be the first generation to do worse financially than their parents?" Then there are those perennial optimists who believe that being born an American means each successive generation is entitled to live better than the prior one. Since I have millennials working their way through college, and of course many of you are in the same situation or have grandchildren, the question is an interesting one.

The Stanford Center on Longevity's Sightlines Project shows two-thirds of Millennials are in debt. Nearly a third of Americans under 35 carry debt that's more than 20% of their household income, and more than a quarter carry debt that exceeds 30% of their income.

Of Millennials who have graduated from college, student debt is up 500% since 1995, averaging nearly \$24,000. I have some theories on why this has occurred but the student debt burden may be even worse. The study found that when excluding those who are not carrying debt—focusing only on those who still owe—the average debt is more than \$47,000.

That can make it tempting for us parents of Millennials to step in and lighten the load, but Baby Boomers and Generation X could be risking their own financial security, now and in retirement, if they can't afford to do so.

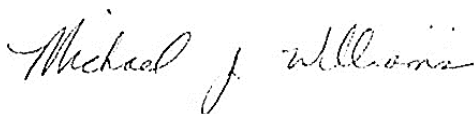
“Compared with 15 years ago, fewer Americans are financially secure and fewer are taking the necessary steps to enhance their long-term financial security, spawning dramatic individual and societal implications,” the study concluded. “The youngest adults are faring the worst.”

So what can Millennials – and the older generations who love them – do to reverse this course? The answer is to start preparing financially as soon as possible:

- Start immediately. Take a “start yesterday” approach to preparing financially. Putting off until tomorrow exacerbates an already difficult financial outlook.
- Financial professionals can offer guidance on navigating the financial world. People like teachers, bosses, and coworkers may be sources of knowledge too. Find successful people, and then use them as models to figure out how they got to where they are now.
- If a family member has built a positive relationship with a trusted financial professional, the Millennials in the family may be able to piggyback off this shared financial acuity. We are very open to helping motivated children and grandchildren of our clients.
- Find apps that can help you to start saving or investing your money. There are several that allow users to build wealth by investing their spare change.
- If an employer offers retirement plans like a 401(k), take advantage of everything you can. At a minimum, contribute the full amount that the employer will match.
- Look for long-term investments. Thinking long term is one of the skills millennials often lack. They have access to technology that gives them instant information and gratification and, investing requires thinking beyond the moment.

Preparing early can help turn around the difficult financial situation that faces many Millennials. Especially when paired with a healthy lifestyle and lots of social connectedness. And parents have a huge effect on how Millennials can get off on the right foot. Want to discuss this topic?

Register for our November 9th workshop and have a Great Weekend!



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