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It's So Ugly Out There, Part II

During the first few trading days of 2016, approximately \$3 trillion of worldwide wealth disappeared according to the headline of a financial publication. For those of you who are number challenged another way to represent this is: \$3,000,000,000,000, which makes the recent Powerball Lottery seem like chump-change. Where did it go? You probably lost a portion of that huge number, but where did it go? Who got it? If I lose my jacket and someone else finds my jacket, I lose and he wins, if you consider finding a used jacket that does not fit to be a win. But, when the value of the world's common stock holdings decline, the owner of the stock feels like he/she suffered a big loss, and there seems to be no winners. No one got rich. No one feels a lot better.

It has to be a terrible crisis...to lose \$3 trillion. Life as we know it may come to an end. This is a LOT of money.

What does it mean for your retirement income? What does it mean for the future well-being of your children and grandchildren? It must mean a lot!

What the headline did not mention is that during the month of October the wealth of the world *increased* by over two trillion dollars. And, in the down cycle prior to that it probably "lost" a couple trillion dollars.

We are not trying to underplay this event because it is difficult to visualize trillions; however, if you were paying any attention at all, you probably realized your investments declined rather significantly in early January. And we are quite certain if we were to ask, you would quickly tell us this "loss" was much more painful to you than the "win" you hardly knew you had in October. And by now, who remembers the "loss" you suffered in August or the big "win" that benefited you in October of 2014...and so on. (Did anyone pick up something quite unique here...big "wins" in the last two Octobers. That is not a normal market pattern. Maybe it is climate change causing all of this!)

It is difficult for us to see the financial markets over the next few years acting much differently than they have recently...very, very volatile. And, especially for planning purposes, we believe it is important to plan for volatility and not sit around and hope the markets just go up in a smooth orderly fashion...like they have *never* done before.

That is why we believe our overriding investment strategy must be the creating of an income that is as sustainable as possible and has the potential to grow. Thus, you hear us talk about companies that pay dividends and how the dividend and the potential growth of that dividend is more important to our investment strategy than the ups and downs of the account balance.

We love to own companies like a beverage company that was paying a \$0.15 quarterly dividend ten years ago and is now paying \$0.33 per quarter. Or the diaper and facial tissue company that was paying a quarterly dividend of \$0.46 ten years ago and it is now about double that.

Dividends are closely aligned to the longer-term operational success of a company and not to the emotions of the stock market.

If your retirement investment strategy is to withdraw principal each month to fund your retirement cash flow needs, you may be on a financial roller coaster that has an unpleasant ending. There are many proponents of merely allowing your investments to ride the ups and downs of the market by following some index with no focus on income. We prefer to focus on helping clients generate a potentially growing income that will provide for their current or future retirement income needs.

(NOTE: The above article was written the week-end of January 9th. The following articles were written a few weeks ago.)

Twenty-Five Percent, Fifty-Five Percent

"Here's what is happening in America today. The top 25% of the income earners are happier than they have

ever been before. However, the middle 55% never felt worse," said the gentleman who was telling us how his apartments that serve the 55% will be a great investment.

I'm not sure where I am going with this article but having worked with people and their finances all of my adult life I have witnessed that high income does not always equal financial success.

The day after I listened to the presentation I let my mind wander some about what he had said, but more importantly the whole concept. Do we call it "income inequality?" Obviously, those running for elected office will use the phrase a lot, probably because it is full of emotion and it appeals to all who feel they are not "equal" and probably want someone or something to make them "equal." I imagine some want to create "equality" by moving up the financial ladder and others just want to see those above them "brought to their financial knees." Words like "equal" and "fair" are great for political campaigns, but I'm really not trying to go down that road with my thoughts. Why spend a lot of time focusing on words that really have no definable meaning when you are dealing with non-absolutes. (Obviously, one plus one "equals" two; however, when you say that I have not been treated "equally" by some outside force it is much more difficult to define.) It becomes nothing more than an emotion, or maybe more correctly, a feeling created by emotion.

You will see in a following article how my experience has taught me that it is not an individual's income that gives them a successful retirement, but for now let's look at the Twenty-Five Percent income earners vs. Fifty-Five Percent. What makes the difference?

Is it education? I would say yes, to a degree. However, formal education isn't necessarily the difference as many 55%ers have college degrees.

Is it skills? I would say yes, to a degree. But, you can skillfully cut hair and be in the 55% or the 25%. You can be a server at a restaurant and be in the 55% or the 25%.

Is it the amount of hours worked? I don't know about this, but my feeling is that many of the 55%ers work long hours and are not considered financially well-off. However, I will say that many of the financially successful people I know put a lot of effort into their careers.

Is it family background? It should be, but I don't see this. As I have watched during my lifetime, most of today's leaders came from middle-class upbringings.

However, maybe this is changing. Are the children of the 25% being raised differently than those of the 55%? This is quite possible. I imagine the 55%ers are more likely to be single parents. I imagine the children of the 55%ers are more likely to attend a lower-rated school. And, I imagine the children of the 25%ers are exposed to many more opportunities than their mainstream friends. However, don't underestimate the middle-class child who is full of drive and enthusiasm. And, don't underestimate the lack of success of many children of affluence.

Is it luck? Oh, I believe luck plays a big role in all of our lives.

Is it attitude? Some of you have heard me mention many times before that the biggest difference I see in people is that one group sort of "takes charge of their lives" and the other group seems to "respond to whatever happens." Now this probably sounds more damning to the second group than I really mean it to be. Let's see if I can explain.

Think of the people you know who got a job after school and pretty much stayed in the same environment their entire work career. Maybe they love it, maybe they became very skilled at their role and had a long-time rewarding career. However, maybe they just ended up years later in the same environment because they just never challenged the status-quo. They never looked for new opportunities. They never acquired new skills. They were content to play the same role their entire working lives. They just hang on.

Is this difference in attitude or our upbringing? Our DNA? Our education? Or What? I don't know; however, some people just think differently than others. Sometimes you can see it in schooling...no, not necessarily in the grade point average, but in how an individual absorbs, massages and uses the information he learned. Let's say someone taught two people how to paint the walls of a room. One person learned how to stir the paint he was given and to use the brush or roller to put the paint on the walls. The other person did the same BUT got a contrasting color of paint to put on the smaller wall to create a much different feeling in the room. Same education, much different results.

What made the difference? I don't know, but it is a big part of life and I don't think any of our aspiring elected officials will be able to change it, no matter what they promise.

I mentioned at the beginning of this article that I didn't know where it was going. I'm still not sure.

"I'm fairly young and I don't want to settle on being a 55%er. What do I do to make sure I belong to the 25%?"

The fact that you even recognize it and believe that it is up to you to make it happen probably means you will achieve your goal.

There are chefs at fine restaurants who are compensated well and there are cooks at the local diner that are not. However, if you love the idea of serving the regular people who frequent the local diner and want a life of serving them and not the pretty people in the fancy restaurant down the street, then do it. However, find a way to serve those people in a way that will provide you with the emotional and material rewards that you desire. One person will take charge and create a diner experience that also rewards him financially and the other person will be cooking diner food his entire career. What is the difference? I still don't know.

"Things are much more difficult today. You can't succeed without the resources that only the rich have."

Really? I have a catalog in front of me that offers hundreds of classes taught by experts all over the world.

(The fact that I said I have a "catalog" in front of me instead of a website tells you something about my age!) Any of these classes are available for a very modest charge.

As I was growing up information was difficult to get. Oh, I could visit the library and read hundreds of old books on the shelves, but all the books were old; current information was very difficult to get.

Then in my early work career they developed audio books and portable players, thus you could drive down the road or walk through the fields and listen to books.

Today, information is almost overwhelming and almost free. You do not need rich parents to have access to information. You do not need rich parents to provide you with good schooling. You do not need rich parents to spark your interests.

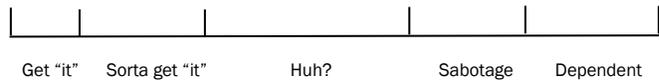
Don't underestimate the value of your drive, persistence and enthusiasm to accomplish something. Look at pro sports. Are the players mostly children of

rich parents...the ones who could hire the best trainers and coaches?

Go to the local music recital, are the best musicians the children of rich parents...the ones who could buy them the finest musical instruments?

Maybe the solution comes from within?

How People View Retirement Planning



Years of dealing with people and their "money" has taught me that some people just seem to "get it" when it comes to putting away some money for a retirement income and others just plain don't.

I mentioned in a previous article the speaker who rather dramatically said that the top twenty-five percent of the population is happier (I assume he meant financially) than ever and the middle fifty-five percent has never felt worse. I DO agree that a certain segment of the population is living a very content financial life and a large segment of the population is struggling, however, my experience is that it is not entirely a function of their income.

I have worked with a lot of people who have created a financially comfortable life and they never advanced out of the fifty-five percent range. And I know a lot of people who consistently earned in that twenty-five percent range who were financially out-of-control.

Thus, as I was driving back from the meeting I came up with the chart above that I feel more clearly illustrates how I feel people understand their *Retirement Income Planning*.

The "Get It" segment is probably self-explanatory. This is the boring group that saved for retirement on a regular basis. These people are generally pretty good investors in that they know the benefits of long-term investing and do not like the short-term volatility, but realize it is generally what we call *normal market volatility*.

The “Sorta get it” group is getting there. They realize they have to put away some *acorns* for their future and they realize they must invest the funds in something other than a can buried in the back yard. I see a lot of couples in this group where one spouse is definitely a “Get it” thinker and the other spouse is not. I guess this keeps the relationship active and a little tense.

The “Huh?” group is probably self-explanatory also. This is the group of people who are frequently good workers, good friends and good parents; however, they just never think about taking charge of their lives. They pretty much go along with what happens and follow the script that society offers. They don’t realize it but in many cases their spending habits, their eating habits and their life habits are pretty much dictated by society as a whole...and advertisers, of course.

The “Sabotage” group is just that. They never seem to be able to get ahead. Frequently they are not high-earners and because of this, any poor financial decision is probably amplified. You know this group of people well. It is the group who hears a loud, funny sound coming from their car’s engine and does nothing about it until the car quits on the side of the road. Suddenly, a hundred dollar repair bill becomes a five hundred dollar hit. But, don’t assume only the lower earners are in this category. There are many relatively high earners who enter their retirement years with a big mortgage and all sorts of credit card and automobile debt.

The last group, the “Dependent,” are just that. They are financially dependent on something or someone other than themselves. These people are generally the recipients of our various government programs. They have little control over their financial lives.

Fortunately, most of the clients we work with fall into the two left side sectors, but we do encounter others. I find it totally amazing how many people who inherit or receive some other form of a lump-sum of money are in or fall into the “Sabotage” sector.

What’s my purpose of this article? I’m not sure I have a purpose. Experience has taught me that a high income is not a guarantee of *Retirement Income Planning* success. But, maybe I just wanted to write an article that was not warning about an upcoming financial crisis.

HI, IT’S ME AGAIN”

“Two years ago, when I was visiting my parents, we talked about my financial situation. Do you remember?”

Yes, you are a single mother who finally has time to fo-

cus a little on something other than raising your children.

“Right, maybe the correct phrase is that I HAVE to focus on my finances. The children are growing and my child support payments will be stopping in about a year.

“I need a good paying job. But I don’t really have any skills. Oh yeah, I have a college degree. Big deal, assuming I remember anything I ‘learned’ over twenty years ago, how much of it is relevant today? My computer skills are pretty much limited to Facebook and simple emails. Also, quite frankly, the idea of adapting to the regimen that a real ‘job’ requires is very intimidating. I have been busy raising the children. I have worked many hard and long hours and have handled a lot of emotional crap. But I have not lived a regimented life—which I don’t think was ever me. What do I do now? I’m age 45, no savings, big mortgage, no skills, still a mother even though the children are no longer young.

“Deep down I think I always assumed that there would be a nice inheritance for me when my parents passed away. But I have learned that most of the income they are living on will disappear when they die.

“As you can see, I’m on my own now. And don’t tell me to find a husband. As I have a history of being attracted to the wrong men!

“What do I do now?”

What would you advise this young lady if she was your daughter, niece, friend or neighbor? Obviously, she needs more than a minimum-wage job for the next twenty to twenty-five years to pay her bills and be able to create the retirement income she will need.

Here’s what I offered:

I’m not sure you are going to walk into some employer and get the “job” you need to solve your financial needs. Plus, I believe it is VERY important that whatever “job” you find offers you a lot of benefits other than the monthly salary. A good feeling about what you are doing, an environment with people you like to be with, a chance to improve and provide more value to your employer and so forth. I believe that life is too short to work a “job” you do not like. You may find that you have to take a “job” you do not like, but please don’t settle for that for the longer-term. Our “job” is a big part of our lives, so make the most of it.

Maybe you should look to one of these temporary employment agencies for some temporary work. This will not be the answer to your employment prayers, but it may expose you to “jobs” that may be available out there and give you some exposure to the workplace.

I would also spend some time listing the skills that you do have. Ask your friends to help you with this as we frequently do not see all of our own qualities. Also, list things you like to do. And, maybe the list is not complete until you also list things you hate doing and skills you don't think you could ever acquire. This at least gives you a starting point to do some creative thinking.

I actually think the future of the workplace is not where each employee has a long-term employment contract, but where most “employees” are really “free agents.” Now the die-hards of the industrial/factory society will pooh, pooh this “free agent” concept as nothing but a short-term “gig” where the employer can fire you at any time. And, to some extent I would have to agree, but I believe it is the future of the workplace and I believe it will make working fun again. We will all be the CEO of ourselves! Take your list of things you like to do and talents you have and see if there is any way for you to start a small business. Now, if you tell me your favorite activity is reading the Facebook postings of your friends, I have to tell you that I really can't see much profit potential in that. So, you have to temper this “what I like to do” with “what can also make a profit.”

You may love baking brownies for your children. That doesn't sound like a profitable venture to me, however, if I truly loved to bake and felt I could do it on a large scale, then maybe I could see a profitable business in my future.

“So you are telling me to: list my skills and activities I like to do, take some temporary employment for exposure and to think about creating my own small business.”

Yes.

“What would be the most important first step?”

Take action...now!

WHAT IS HOLDING ME BACK?

Are we, the American public, focused too much on the bad economic things that are happening and the even

worse economic things that are predicted to happen? Are we missing the good economic times because of our fears, our expectations and maybe our financial envy of others?

I have lived through many economic times and I can't remember any much better than today. Oh, I wish interest rates were higher so people's retirement savings would generate more income. But, do I want to repeat the years when simple bank account interest rates were in the double digit range?

And, I wish everyone had a good paying job in which they got a nice increase each year. Oh, this is pretty much true now for those who have skills that are in demand in this economy.

And, I wish everyone, even those with really poor credit, could buy a nice home with no money down and very low monthly payments. Oh yeah, we have tried that before.

I do understand that things do not feel economically rosy for a fairly large segment of our population. The people who seem to have gotten caught up with their future tied to a shrinking industry, those who are burdened with too much debt and those who feel they do not have the skills to be valuable in today's economy.

I challenge them to take stock of their current economic situation and lay out a plan to change their economic lives.

Get out of debt. If you have a lot of debt, you need to take drastic actions, so lay out a plan and start doing it right now. This is no different that someone who is many, many pounds overweight...get a sensible plan, and take action.

Evaluate your employment. Is your industry dying? If so, start preparing for your next career right now; don't wait until the last spike is driven in the casket.

Evaluate your network of associates. My guess is most good jobs, with smaller employers, come from word-of-mouth and not from postings on the Internet.

We are living in very good economic times! If you are not reaping some of the rewards, then you probably need to take some actions to reposition yourself.

Ask yourself, “What is holding me back?”



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IT SEEMS SO UGLY OUT THERE, Part II

WHAT WE DO...

We prepare retirement income plans, which are essentially blueprints to help our clients pursue their long-term retirement goals.

We manage our clients' investment accounts on a fee basis with discretionary authority focusing on meeting their objectives rather than focusing on what the financial markets may be doing.

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