June 2019
Written by: Philip C Benedict, CFP®

OUR OFFICE:
Philip C Benedict, CFP®
Travis M James, CFP®
Mark A Beaver, CFP®
Ashley A Thompson, CFP®
Jackie Thompson
Fredda B. Schwartz

the BENEDICT REPORT

6000 Lake Forrest Drive NW, Suite 550, Atlanta, GA 30328-5901 • 770 671 8228 • 770 671 0232 *fax* • 800 678 8227

Bull Market or Bear Market?

If you follow the financial media, you know that many pundits are predicting that a bad market cycle is right around the corner…or a "bear" market as it is usually called.

There are also some well-respected industry insiders that see another strong up-market cycle right around the corner… or a "bull" market.

Which will it be, bear or bull? Of course, we don't know and neither does anyone else. The news media loves "fear", thus the down-market prediction probably gets a lot more air time. But, more importantly, what can you do to protect yourself from a major down market if/when one happens?

And, by protecting yourself, we don't mean avoiding all market volatility, but we do mean trying to keep the damage within reason.

Any withdrawals you plan to take over the next several years or so, need to be somewhere that is not exposed to market volatility. If you are only withdrawing the true *income* from your investment account, then it probably doesn't matter, financially, what happens to the account value. But, it probably does matter to your emotions.

Another way to do this is to have the equivalent of several years withdrawals in a non-fluctuating investment and then reinvest all the dividends in additional shares of stock. This way you don't have any market decline of the money that is available for withdrawals AND you are taking advantage of the decline and buying more shares at lower market prices.

"But, what if the market goes up and not down?"

This is called *investing.* You give up some of the up-side to provide some limits to your down-side.

Another strategy that could potentially work well in down market cycles is to own shares of some companies that sell products that are *essential.* Things such as toothpaste, bread, soft drinks, chocolate, laundry detergent, cereal, deodorant, etc. Companies in these industries tend to have much more stable revenue and earnings than companies operating in the more cyclical parts of the economy. Think about it…if a nasty recession or down-market hits, you may postpone buying a new car, but you will probably still buy beer!

But, be careful being too cautious as it may really damage your retirement income. A couple was in recently who got "out of the market" in 2013, of course, with plans to re-enter when *the time is right.* You guessed it, the time is not right yet. Thus, they have given up six years of income that a true investment account could have generated. Instead they have withdrawn a lot of their principal for living expenses.

You do NOT have to accurately predict the future of the stock market for investing to work for you.

Miss a Little, Maybe Miss a Lot...

For the ten years ending June 2018, the Standard & Poor's 500 Index was up 10.2% per year.

IF you missed the five (5) best performance days of that entire ten-year period, your average return would have dropped to 5.8% per year.

Source: BTN Research

You need a strategy to help deal with the normal market volatility that comes with investing.

70% income tax rate?

We are entering *circus time* again in this country where Presidential wannabes are lining up offering promises in exchange for votes. And, every salesperson knows that you don't sell with facts, you sell with emotion. So, to become a true contender for the big race, you need to hone in on the emotions of the public. The public doesn't want to hear about reducing the deficit, foreign affairs or stuff like that. But, make him think he will get a tax-cut and the *rich-guys* will get a big tax increase and you have his vote.

When I was preparing income tax returns in 1968, if you made $22,000, you paid $5,167 plus 45%+ of all earnings over $18,000. Thus, you paid approx. $7,000 in Federal income taxes.

If you earned more than $100,000, you paid $55,480 PLUS 70% of everything over one hundred thousand dollars. Add the state income tax rate and FICA taxes to this and you quickly see there wasn't much left.

What did people do when faced with 70%+ income taxes? They tried to avoid it… legally, of course!

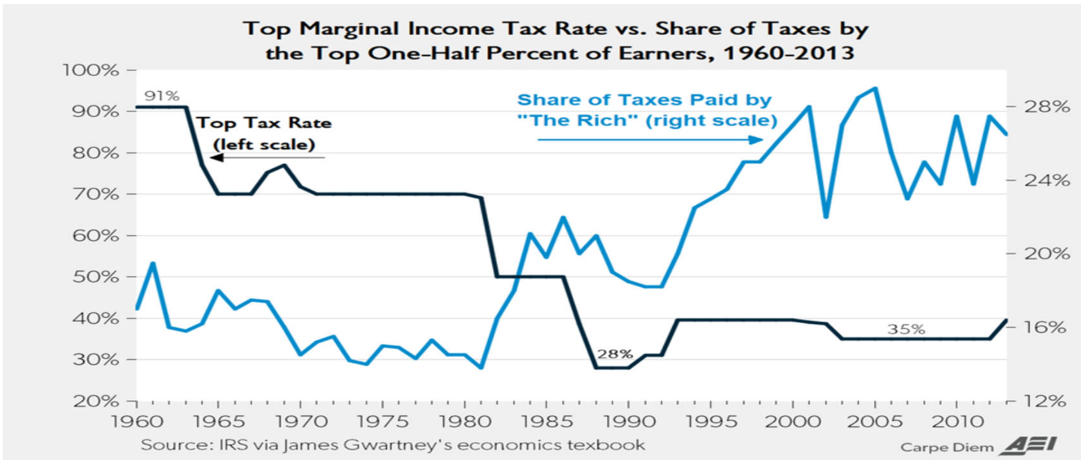
Can anyone think that this was good for the economy and households in particular?

Would a 70% income tax change people's behavior? I think so. People, especially the ones in the higher tax brackets, are now very mobile. They can move to a different country. They can devise ways to reduce their taxable income.

I'm old enough to not work. And, I don't consider what I do as work. But, what if I was required to give 70% to the Federal government, 6% to the state of Georgia along with about 15% (employee and employer) to the Social Security administration?

I don't know what I would do. But, I do know I would do everything I could NOT to give that much to the tax man.

Here is a chart that shows the top marginal income tax rate since 1960. It shows that reducing the income tax rate of the top one-half percent of earners, substantially increased the share of income tax that this group paid. I was in business for most of those years and you could almost watch it happen.



But, politicians don't care about facts, they just want your vote. Besides, the struggle between higher-income and lower-income tax rates has been going on for many decades. Enjoy the circus.

Pay My Mortgage Off?

"We don't worry about our house mortgage; the interest rate is only 3.5%. I remember when we were paying 14.5%, thus the current rate is almost nothing."

You are getting ready to retire. Your lifestyle in retirement is tied to two basic things: your "gotta-have" expenses and your sustainable income. The interest rate on your mortgage is not all that important, what IS important is the cash-flow needed to pay the monthly mortgage payment.

I would encourage you both to work three or four more years at something you enjoy. If you focus on it, you can have the mortgage paid off by the time you qualify for full social security benefits. This means your social security benefits will be substantially higher AND you will not owe the monthly mortgage payment. You may think you are giving up three or four years of retirement enjoyment. In reality, you are exchanging those years for a financially stress-free retirement.

"*But what if I die in the next few years?*"

Then it won't matter to you! And, not having a mortgage payment will mean your spouse will probably be in decent financial shape even with the loss of one social security benefit.

Think of it this way…paying off your mortgage is like having a guaranteed account paying 3.5%.

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.

The primary author of The Benedict Report is Philip C. Benedict, CFP®. Travis M James, CFP®, Mark A Beaver, CFP® and Ashley A Thompson, CFP® provide technical assistance. Fredda B Schwartz and Jackie Thompson handle the layout and editing of the newsletter.

BENEDICT
FINANCIAL ADVISORS, INC

6000 Lake Forrest Drive, Suite 550
Atlanta, GA 30328-5901
770.671.8228
www.benedictfinancial.com

Bull Market or Bear Market?