JOSEPH JEKYLL ADVISERS

Quarterly Newsletter

Third Quarter 2015 Fee-Only Financial Manager jekylladvisers@charter.net

After Five Great Years For Stocks, What's Next?

Once again, investors have been taught about the power of investing in stocks for the long run. The lesson is illustrated in this chart of returns of a diverse array of 13 investments, including European stocks, commodities, and bonds as well as U.S. stocks. It is a lesson investors have been taught many times before but remains difficult to learn. The chart spans a five-year period, which is a long time, and it covers investments that in the past behaved differently from one another.

Atop the chart, the best investments by far, were America's blue-chip publicly held companies. Also among the best-performing asset classes for the five years were real estate investment trusts (REITs), both U.S. and foreign, and master limited partnerships.

The worst asset class on the list for the past five years was crude oil and other commodities, along with the euro currency. The euro lost 13% versus the U.S. dollar over the five years.

As for the bond total return indices, U.S. Treasuries returned 23%, or 4.6% per year. Municipal bonds gained 25%, or about 5% per year. Leveraged loans gained 30%, or about 6% annually, while high-yield "junk" bonds gained 49%, about 9.8% per year.

An ounce of gold, in this five-year period, shot from approximately $1,200 to $1,800 before losing luster, recently settling at $1,120. Gold bulls had counted on the Fed's liquidity program going too far, triggering inflation and "debasing" the U.S. dollar. It never happened. Inflation and bond yields are lower than investors, including the Federal Open Market Committee, the central bankers who make up the Federal Reserve, had expected.

But the most important takeaway from this accompanying chart is not the returns on specific asset classes over

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Inflation? And 3rd Quarter S&P500 Earnings

Dear Clients and Friends,

British economist William Phillips published a well-studied treatise called *The Relation between Unemployment and the rate of change of Money wage rates in the UK in the period 1861-1957*. He felt that as unemployment rates went down, inflation rates went up. Mrs. Yellen chair of the Fed, Mr. Williams at the San Francisco Fed and Mr. Dudley at the New York Fed, next door to where I used to work in New York, believe the Phillips curve is their North Star. The Fed's target for inflation is 2% p.a. The Fed may say our 2% target is just around the corner so be patient.

Milton Friedman's unforgettable 1968 speech to the American Economic Association argued the Phillips curve was OK in the short-run but in the long-run inflationary monetary policies will not increase employment.

Some fear deflation is ahead. Professor George Selgin, my economic teacher at UGA, and now at the Cato Institute argued in his *Less Than Zero: The Case for a falling Price Level in a Growing Economy* that a falling price level (i.e., deflation) could spur economic growth if caused by natural conditions rather than monetary stimulus.

That being said the inflation rate may be a side show. A bigger problem may be lower S&P 500 earnings, as 50% of S&P 500 sales come from outside the U.S. The strong dollar reduces their foreign sales and can have a negative impact on Earnings per Share.

Will these S&P 500 earnings' announcements be a buying opportunity?

Best wishes,

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How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

• Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;

• Set goals that are both ambitious and reasonable;

• Account for changes in your personal circumstances (births, deaths, marriage, or divorce);

• Address weaknesses in your current investment and retirement planning;

• Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook. You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●

When Do You Need An Appraisal?

Are you planning to donate real estate to charity? The tax law allows you to claim deductions, within generous limits, for giving property to qualified charitable organizations. But you have to meet strict requirements, including the necessity to obtain an independent appraisal for property valued at more than $5,000.

In fact, in a recent case, a taxpayer who donated real estate worth approximately $18 million failed to provide the required appraisal, and after an audit, the IRS challenged his charitable deductions. The Tax Court's verdict? His deduction was zero!

The basic rules for deducting gifts of property say you can't use those donations to write off more than 30% of your adjusted gross income (AGI). Overall, your charitable deductions can't exceed 50% of your AGI for the year. But if you exceed those levels, you can generally deduct the rest in future tax years. (Itemized deductions may be reduced for certain upper-income taxpayers.)

If you donate property that has gained value, the deductible amount is equal to the fair market value (FMV) of the property at the time of the donation, as long as you've owned it for more than one year. For shorter-term gifts of property, the deduction is limited to your "basis" (usually, what you paid for it).

However, the IRS requires you to jump through a few hoops before you can pocket any tax deductions. When you file your tax return, you must include a detailed description and other information for property valued at more than $500. Also, if you claim the FMV is more than $5,000, you must obtain a written appraisal of its worth.

In the case of the above disallowed deduction, Mr. Mohamed was a prominent entrepreneur, real estate broker, and certified real estate appraiser. He donated several parcels

Five Ways To Plan For The Long Haul

Maybe you're in the homestretch before retirement or perhaps you've already stopped working. If you've been diligent in setting aside funds to sustain you through your golden years, congratulations are in order, but you can't rest on your laurels. As life expectancies continue to increase, it's more important than ever to address concerns that you might outlast your money. As the rebound in the economy and stocks has demonstrated, you need to take steps to plan for the long haul and stick with that plan through downturns. Although there are no guarantees when it comes to investing, consider these five suggestions for planning for the long term:

1. Be able to ride out stock market downturns. Even if investing in equities helped get you where you are today, you may decide that the inherent volatility of the stock market means you should get out of it altogether during retirement. That might not be the best approach.

Instead, try to stay on a path for sustained growth that factors in your personal tolerance for risk. For instance, a conservative investor embarking on retirement might allocate 30% of a portfolio to equities and 70% to fixed-income investments. A more aggressive investor likely would choose a higher percentage—perhaps 40% or 50%—to keep in stocks. But the important thing is to find a balance between risk and reward that helps you meet your goals and that won't send you fleeing from stocks when they decline sharply.

2. Try to live off the income your investments generate. The longer you can go without tapping the principal of your savings, the better. But that doesn't mean that interest and dividends alone always can carry the day. Assume you have a $1 million portfolio that produces 3% in annual income ($30,000), plus you and your spouse receive Social Security benefits of $2,000 a month each. That gives the two of you a total of $78,000 annually before taxes, and that may not be enough to support the lifestyle you have in mind.

Depending on your situation, you could arrange to do some consulting work in retirement, wait until age 70 to begin drawing Social Security—a delay that will earn you a higher monthly benefit—or seek higher investment returns. In any event, look for ways to avoid drawing down your savings too quickly.

3. Weigh the 4% solution. That's a rule of thumb for the percentage of a nest egg you might withdraw annually to take income to fund a 30-year retirement. The idea is to take 4% of your total portfolio during the first year of your retirement and then to adjust that amount in subsequent years to account for inflation.

But like any rule of thumb, this doesn't factor in unusual circumstances, like the economic conditions you may face. You might decide a lower or higher percentage would be appropriate depending on your situation.

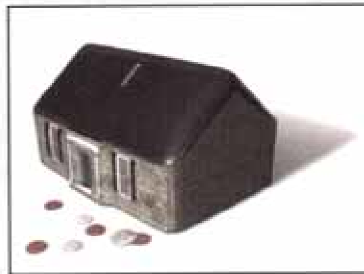
4. Let the IRS determine your income. Once you reach age 70½, you'll have to begin taking "required minimum distributions" from 401(k)s and other employer-sponsored plans (if you're no longer working) and IRAs. The size of each year's RMD depends on your account balances and your life expectancy. Another way to determine how much income to draw from your portfolio during retirement is to use the IRS calculation for your RMDs.

Suppose that you are age 70½ and have $500,000 in an IRA. The IRS says your first distribution would be about $18,800. Will that be sufficient to supplement your other sources of income? In some cases, such an approach might work well, but it doesn't take all of your personal circumstances into account.

5. Make a "bucket list." Another possible way to hedge your bets against market downturns and make your savings last is to divide your money into various "buckets." One bucket might be earmarked to supplement Social Security and other reliable income in covering your basic expenses, with the funds kept in conservative, liquid accounts. You could have a second bucket of money for discretionary expenses, such as travel, that you put into short- and intermediate-term bonds. The remainder could go into a third bucket, invested in a mix of stock and bond funds. As you rebalance the portfolio for the third bucket, you could use proceeds from investment sales to replenish the first two buckets.

All of these ideas are for illustrative purposes only. What you do will depend on your personal situation and goals. The important thing is to consider all of your options and come up with a plan that is realistic and based on the long haul. ●

of property to a charitable remainder trust during a two-year period. When he completed his tax returns for those two years, he attached Form 8283 (Noncash Charitable Contributions). Based on his own appraisals, the total FMV of the properties exceeded $14 million (although his initial deduction was "only" $3.8 million due to the AGI limits).

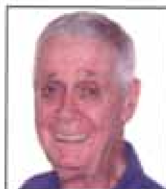


But Mohamed didn't read the form's instructions explaining that self-appraisals aren't permitted. He also omitted important information such as the basis of the properties. The IRS challenged the deductions. When Mohamed appealed to the Tax Court, the IRS disallowed the entire deduction, despite subsequent independent appraisals establishing the total FMV at more than $18 million. In the end, the Tax Court agreed with the IRS, although it acknowledged the result was harsh.

The moral of this story is that if you donate appreciated property, you need to make sure you observe the strict letter of the law. ●

Don't Outlive Your Money: 7 Tips *By Bob McGinty*

The scariest financial risk people face in life is running out of money at an old age. I'm 83 and I'm speaking from personal experience. After a long career as a newspaper editor, I retired in 1991 at the age of 60, with my wife, who is 14 years younger and retired in 2004. I've learned about financial matters the hard way, and I ghost-write articles like this one to earn some extra income. I'm not scared about running out of money in my lifetime, but I am fearful of not leaving enough money to my wife, who is much younger than I.



Let me share with you some financial lessons I've learned. Of course, these are my personal opinions, not anybody else's.

1. DO NOT elect to take Social Security benefits early. If you do take early benefits, you probably will be shortchanged on what you would have received in total payments over the rest of your lifetime. People are living longer these days. You will add 8% a year in payment totals after full retirement age if you can wait until age 70 to take benefits.

2. Downsize your home at the earliest opportunity. Once you become an empty nester, the odds are that you do not need a house as large as the one in which you now live. Sell it and buy a smaller one. Pay cash if at all possible.

3. Consider moving to a retirement community, which can be a highly desirable and cost-efficient place for the elderly to live. Your neighbors in such communities most likely are like-minded and in your age group. Also, such communities are especially designed for elderly living, and most are located near good health-care facilities. Plus, they offer social, educational and recreational facilities designed specifically for the elderly.

4. If you are not already out of debt, get out as soon as possible. When you are not in debt you can live on much less month to month, thereby lessening your chances of outliving your money.

5. If you have two cars, sell one. If you only have one, drive it twice as long as you did in the past. You probably will be driving less at this time in your life, and you can most likely drive your current car much longer without encountering excessive repair bills. If you are in the practice of making monthly car payments, once you've paid off your vehicle you can put all of the payments you would have made before into your savings.

6. If you are part of a close-knit family, do not move very far from your children and grandchildren. Life-changing occurrences such as death, divorce and disabilities are easier experiences when you have the support of family members around you all the time.

7. Finally, and most important of all: Continue to save all that you possibly can. The amount that you can save if you follow the previous six recommendations may be considerable. Where and how should you invest it? Seek out a financial advisor that you are sure you can trust and that you are sure is competent, and turn investment decisions over to him or her. ●

Bob McGinty is a retired newspaper editor who occasionally ghost-writes articles for financial advisors.

After Five Great Years

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these last five years, but the unpredictable nature of investments. At the end of 2009, Time magazine declared the two biggest news stories of the year were the "non-recovery" of the economy and the war in Afghanistan. Who would have thought the U.S. recovery would go so well and that oil prices and commodities would plunge in the years ahead? Who would have known in 2009, amid the global slowdown, that the U.S. was leading the world from recession and the stock market had just started one of the biggest bull markets of the century? Such things are unpredictable, which is why our investment approach is guided by long-term wisdom about markets and human nature.

With the outperformance of U.S. stocks over this five-year period, today's markets are different than they were five years ago. Stock prices have tripled, and only three bull markets have lasted as long as this one since the advent of the modern securities markets in the 1920s. The longer the bull market goes on, the more likely it will be interrupted by a period of sharp losses. However, bull markets have continued longer than expected many times in the past and this one could go on. It would be folly to abandon stocks now as though we can predict what will happen over the coming five years.

While investors must be realistic about the possibility of a bear market, stock valuations by historic standards were not out of line in the third quarter of 2015. Corporate earnings were in line with analysts' predictions, and the U.S. economy was continuing to grow. You never should expect past performance to predict your investment results reliably, you should expect the next five years to be totally different from the last five years. But enduring truths about how asset classes historically behave and the power of stocks over the long run remain paramount. ●

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