



July 6, 2017

Here is our newsletter for the 3rd Quarter of 2017.

The Markets

The 1st quarter saw a continued increase in equity markets in the U.S. and foreign markets, with foreign developed markets returning the highest at 6.1%. Natural resource stocks got hit hard with a 10% loss and commodities lost 5%.

The bond market was pretty quiet with moderate, positive gains in all but the TIPS market. Riskier segments of the bond market continue to do well (emerging markets local and high yield bonds).

NAPFA Planning Conference in Seattle

The annual fee-only planning conference had a wide range of continuing education for 3 days in May. This year I would like to detail one of the sessions I thought most pertinent as all my clients either have elderly parents or are an elder themselves.

The Silver Tsunami

Carolyn Rosenblatt and Gary Small are experts in advising families (and their advisors) on how to help the elderly. Their book, “The Family Guide to Aging Parents” primarily talks to the children of the elderly and helping them gain an understanding of issues such as: choosing a home care worker, assisted living or nursing home, how to talk to your parents about giving up driving, overcoming resistance about getting help with their finances and how to protect them from financial predators.

There is a check-list of warning signs about oncoming dementia. The warning signs usually come on slowly over many years. The disease will start degrading the ability to make safe financial decisions early on in the process before the person has trouble speaking or finding their way around. Number one on the list is loss of short-term memory. They can still recall details of events that happened 40 years ago but forget something important that happened yesterday. Another one is the loss of reasoning concerning risk and financial affairs. Even more concerning is those affected often do not know they have a problem. It is not that they are in denial

Asset Class Returns- Ending 6/30/17		
Asset Class	2nd Qtr 2017	One Year
US Large Cap Stock	3.1	17.9
US Small Cap Stock	2.5	24.6
Foreign -Developed Mkts Stock	6.1	20.2
Emerging Mkts Stock	3.5	18.9
US Intermediate-Term Bond	1.5	-0.4
Emerging Markets Local Bond	3.2	8.7
High Yield Bond	2.2	11.7
Inflation-Protected Bond (TIPS)	-1.0	-0.7
Cash	0.3	0.7
US Real Estate	1.6	-1.9
Natural Resource Stocks	-10.2	-4.3
Commodities	-5.1	-5.6

(although that is common also), their dementia has degraded their self-awareness to a point where they really do not know what is happening.

The odds of developing Alzheimer's disease are over one in three by the time one reaches age 85 and two-thirds of those diagnosed are women. Here are a few highlights to give you some ideas on how to protect you and your parents.

- Talk with your parents (or children if you are elderly) about your finances. Make sure they have a Durable Power of Attorney (DPOA) that appoints someone trustworthy to help manage the affairs of the elderly when they cannot do so alone.
- Elder abuse is a huge problem. The most common perpetrator is a relative. The next common is a paid caregiver. We should be aware of all the telephone scams and internet thieves. Another common scam comes from so-called "front door fraud" where a handyman comes to your door and offers to do some maintenance on the home. The person collects a deposit and never shows up again or simply overcharges for the work.
- When choosing a home care worker use a licensed agency to supply the worker. Never allow the worker to have access to cash, bank accounts or to conduct financial transactions.

As a financial advisor I can be a service to assist the family in helping to deal with these issues. You can expect me to discuss making sure all the estate documents are in place and I know who to contact in an emergency. I can also look out for my elderly clients and watch for the early warning signs of problems. With the approval of the elder I can discuss financial or other issues with the children, another loved one and/or the appointed DPOA. I know all this is the last thing we all want to face. We just need to make the time to do it.

Teaching Our Kids Finance

Now on to a more pleasant subject. I volunteered again this spring to teach a financial literacy course at Miller Middle School. Financial education is now a requirement in Colorado, although I wish it was more than a 5 hour class. It was a program called the "Money Game" where the kids participated in groups to learn the basics of earning, spending, saving, investing and protecting your money. The kids were great and don't believe what you hear about the next generation. Know Your Dough is the non-profit here in Durango who select the programs and organizes the volunteers and is a great organization to support.

On a related front, several of my clients have kids going into college this year. Our oldest happens to be entering his freshman year in the fall. Here are some things to watch out for when paying from 529 College Savings Plans. When you pay the college for qualified expenses from the 529 make sure you pay the school in the year you withdraw the funds from the 529. The easiest way to assure this is to pay the college directly from the 529 plan. Qualified expenses are tuition, room, board (only up to that shown on cost of attendance form), computers and books. Don't pay everything using the 529 plan as some fees are not qualified expenses. Give me a call if you have questions.

Talk of Tax Reform

Almost every year the federal tax system is modified by Congress. However, it has been over 30 years since the last major overhaul. There has been a lot of talk in Washington about big changes and we will keep up with these if they become law. The talk (and talk is cheap in Washington) is around cutting business taxes, repealing Obamacare and the taxes associated to fund it among others. Perhaps we will know more by the end of the year and if a law is passed we should discuss the impact on your finances by the end of the year to plan for and take advantage of the changes.

On the next page are two charts I find interesting which show where the Federal government gets its revenue and how that has changed over time. The big increase has come in payroll taxes (Social Security and Medicare). The individual income tax has been pretty steady over the years at a little over 40% of total revenues. What stuck out for me is corporate income tax only makes up 10.6% of the revenue base today while it was over twice that in the 1950s. The talk about high taxes on corporations is only partially true. It's true for small businesses but most large corporations use many loop holes to reduce their taxes well below the marginal rates. In my view they need to eliminate the loop holes along with lowering the marginal rates.

Have a great rest of your summer.

Sincerely,

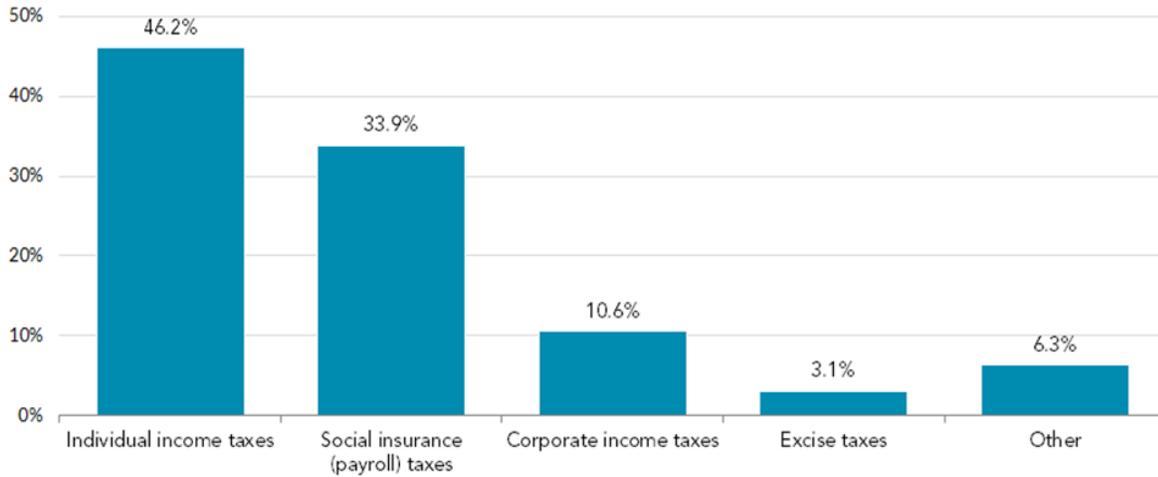
Stan Johnson, CFP(R)
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FIGURE 1

Sources of Total Federal Tax Revenue FY2014



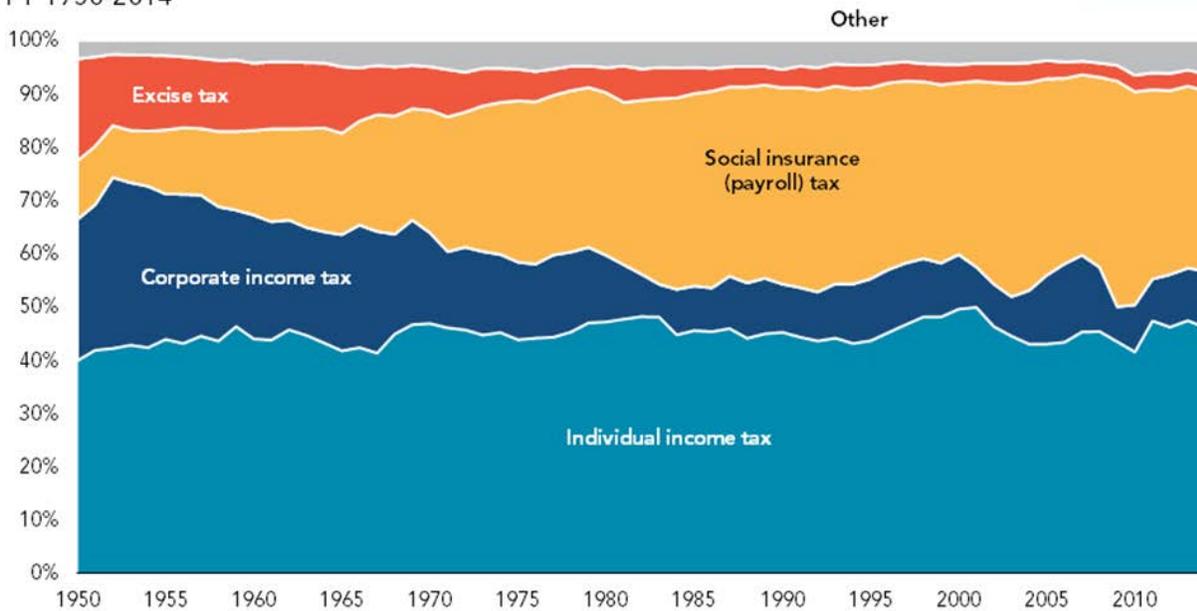
Share of federal revenue



Source: Office of Management and Budget, Fiscal Year 2016, Historical Tables, Table 2.1.

FIGURE 4

Sources of Federal Revenue FY 1950-2014



Source: Office of Management and Budget, Fiscal Year 2016, Historical Table 2.1.