Lassus Wherley
Building Better Futures
...a View from the Top

Issue 57, November 13, 2015

And Away We Go!

Here are our thoughts on the financial markets, calls from the IRS, other tax scams, and the latest changes to Social Security claiming strategies.

The financial markets have given us one heck of a roller coaster ride over the last few months. After a really ugly August and September, October turned into a resounding positive. As we discussed in our last View from the Top, only by staying invested did you get the benefit of the increased value in the markets in October. Since October we have given back some of those gains.

So remember why you invest in a diversified portfolio and repeat after me— I am a long-term investor, not a trader. Now there certainly is no guarantee that we won't experience more negative months, but it is good to remember that financial markets do not go straight up or straight down. They tend to move up and down over time with a definite trend. The trend right now still seems to be in a positive direction, so keep thinking about that when we get those negative days.

Returns in equity markets over the last 3 months serve as a good example of the importance of our long-term philosophy.

We noted in our last View from the Top that both the S&P 500 and Russell 2000, measures of large-cap and small-cap US stocks, respectively, had officially entered correction territory in August, having dropped by 10% or more from their previous highs. The S&P 500 closed the month of August down -6.03%

and lost an additional -2.47% in September. The Russell 2000 also closed down in both August and September, with returns of -6.28% and -4.91%, respectively. However, in what is typically a volatile month in the markets, both indices posted strong

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returns in October, with the S&P 500 up 8.44% and the Russell 2000 up 5.63%.

Developed international equity markets experienced a similar bounce-back in October, with the MSCI EAFE up 7.82%, compared to returns of -7.36% and -5.08% in August and September, respectively. The same is true for emerging market equity, with the MSCI EM Index up 7.13% in October, after returns of -9.04% and -3.01% in August and September, respectively. The returns experienced in October highlight the importance of staying invested, with a focus on rebalancing to add to asset classes that haven't performed as well during periods of volatility.

The good news is that pre-presidential election years are typically positive years for US equity markets, with the last loss in a pre-presidential election year for US equity markets having occurred in 1939.

The ongoing volatility also highlights the importance of the more defensive asset classes that we utilize in client portfolios. The fixed income and hedge strategy asset classes have provided the risk management and diversification qualities that we look to these asset classes to provide during times of volatility. The Barclays US Aggregate Bond Index, a broad measure of the US investment-grade bond market, posted only a slightly negative return of -.06% in August, followed by 0.80% and -0.28% returns in September and October, respectively, and has a positive return of 1.14% year-to-date through the end of October. The TFS Market Neutral Fund that we utilize in the hedge strategies asset class returned -0.13%, -0.52%, and 1.10% in August, September and October, respectively, with a 2.50% return year-to-date through the end of October. The returns from these asset classes compare well to that of domestic and international equity and do so with significantly lower volatility. The fixed income and hedge strategies asset classes have proved to serve as a ballast during the recent volatility and provide the diversification that we seek from these asset classes.

Although it would be nice to see equity markets settle down and become a little more boring, the reality is that there are still many factors that will continue to drive volatility. The market continues to speculate as to whether or not the Fed will move to increase interest rates in December. This uncertainty in terms of the timing of rate hikes is likely to continue to drive volatility in the markets in the short-term. In addition, the presidential election campaign has been quite interesting thus far, and we are still a long way from election day. Political uncertainty will contribute to volatility in the

A Closer Look

markets leading up to the election.

The good news is that pre-presidential election years are typically positive years for US equity markets, with the last loss in a pre-presidential election year for US equity markets having occurred in 1939. In the short-term, markets will continue to focus on economic data and earnings results, a slew of which will be reported in the coming weeks.

It is important to remember that no currency comes close to the US dollar in terms of its global perception as a safe-haven, a store of value, and the world's most stable reserve currency. The reality is that the dollar's share of global foreign currency reserves has held fairly stable at just over 60% since the financial crisis of '08-'09.

Risks from overseas will continue to contribute to volatility as well, as both developed international and emerging market economies continue to contend with slower growth. Efforts to spur growth overseas continue. The European Central Bank recently signaled that they could look to increase monetary stimulus to the eurozone in December, potentially extending its 1.1 trillion euro bond purchase program, and/or further cutting interest rates. China has also provided its fair share of excitement to world markets as of late, with ongoing stock market volatility, the surprise devaluation of the yuan in August, and stagnating growth. China continues to take measures to spur growth, with the Chinese central bank recently initiating its sixth interest rate cut in less than a year, and further lowering reserve requirements for banks.

What About the Dollar?

China's move to devalue the yuan, the yuan's potential addition to the IMF's (International Monetary Fund) reserve-currency basket (currently consisting of the dollar, pound, yen, and euro), and growing debt levels have caused some concerns relative to the US dollar and sparked more articles/texts warning of a potential impending collapse of the dollar. While growing debt levels in the US have been and continue to be a factor, it is important to put claims about the collapse of the dollar in context.

It is important to remember that no currency comes close to the US dollar in terms of its global perception as a safe-haven, a store of value, and the world's most stable reserve currency. The reality is that the dollar's share of global foreign currency reserves has held fairly stable at just over 60% since the financial crisis of '08-'09. During times of volatility, investors continued to add to their holdings of US financial assets, purchasing significant amounts of US government securities during and after the financial crisis. The Chinese are some

Tax fraud continues to be a major issue that we all need to be aware of and watch for in our financial lives. The IRS website has good information on different scams and issues. Here's one of great references they have available: http://www.irs.gov/uac/Newsroom/IRS-Completes-the-Dirty-Dozen-Tax-Scams-for-2015.

of the biggest holders of dollar-denominated debt. Despite the size of China's economy and the measures they have taken to promote the use of the yuan in international financial transactions, the state of financial markets as well as the political and legal structures in China do not lend themselves to inspiring confidence amongst foreign investors in turning to the yuan as a safe-haven for their funds. Although the sheer dominance of the US dollar as a medium of exchange for all kinds of financial transactions is certainly subject to some level of change over time, we do not believe that the dollar is at risk of losing its status as the world's safest and most liquid currency any time soon. Given the significant rise in the value of the dollar, there is certainly potential for the value of the dollar to come down meaningfully off of current levels. However, as the value of the dollar is reduced, the drag on the manufacturing sector and on US exports is reduced along with it, as US goods become cheaper on a relative scale. Although there are always risks, we believe the dollar will continue to remain the pre-eminent global reserve currency and do not believe that a collapse of the US dollar is on the horizon.

When the IRS Calls – Don't Answer

What is scarier than a call from the IRS saying you owe money? **Answer:** Finding out it was actually an IRS impersonator you just gave your personal information to.

And that is just one of the many ways crooks attempt to steal someone's identity for their financial gain. The first thing you need to know is that the IRS will never call you or threaten to call the police on you. They will also not contact you by email, so when you receive one that claims to be from the IRS - do not click on any of those links. Those links are just another trick to attempt to grab your personal information. The form of communication the IRS uses is snail mail, so if you get a letter from the IRS, it is probably legitimate. But any time you receive a call or email from the IRS, you will know it is a fraudulent inquiry. Do not, under any circumstances, send money or provide any of your personal information no matter how legitimate or scary it may sound.

There have been many headlines in the news about tax fraud over the past year, but the problem continues to exist long after the headlines are gone. Tax fraud continues to be a major issue that we all need to be aware of and watch for in our financial lives. The IRS website has good information on different scams and issues. Here's one of the references they have available: http://www.irs.gov/uac/Newsroom/IRS-Completes-the-Dirty-Dozen-Tax-Scams-for-2015.

There are many forms of tax fraud, including the filing of a tax return by an impersonator in your name using your Social Security number. The individual filing your return receives a refund. And guess what happens when **you** file your tax return? Your return gets bounced because a return has already been processed. Then the real fun begins. You have to prove your identity by filing IRS Form 14039, Identity Theft Affidavit, with your tax return and copies of your driver's license and passport. And since this is fraud, you will also need to file a police report and an online complaint with the Federal Trade Commission (FTC). You can also call the FTC at (877) 438-4338. This is a situation where someone has literally stolen your identity, so you will need to let all of your banking and investment institutions know about the fraud. Once you have an issue, it takes time and energy to get it resolved, and you have to pay close attention to what is going on.

For those who are concerned about this type of potential fraud, there are several things you can do to try to protect yourself and your family. The first is to check your withholding and try to get closer to the actual tax you typically owe vs. overpaying, as many do. This would mean if there is an issue, you won't have to wait months to get your money back. You can also file your tax return earlier rather than waiting to file at the last minute. You basically file before the scammers have a chance to file. Kind of a sad commentary on the situation, but it can be a good defense.

The bottom line is there are many very smart people out there who are always looking for ways to separate you from your money. You have to be smarter to prevent them from being successful. And while you are being smarter, make sure you check your credit reports regularly. You can check for free once a year at AnnualCreditReport.com or you can pay for a credit monitoring service to help

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you stay on top of it. If you suspect some type of fraud notify the credit bureaus and request that they put a "fraud alert" on your file. (Equifax 1-800-525-6285; Experian 1-888-397-3742; TransUnion 1-800-680-7289) There are many resources out there to reference, and the IRS' Taxpayer Guide to Identity Theft is a great place to start. So pay attention ……and protect those assets you have worked so hard to build.

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Social Security and Medicare Changes You Need to Know!

The recent budget deal made by Congress basically eliminated two Social Security-claiming strategies. The first is referred to as "file and suspend" and the second is the "restricted application" option. Under the "file and suspend" strategy, you can file for your Social Security benefits and then have them suspended. This means your future benefit will continue to grow but your spouse can still claim a spousal benefit against your earnings. Congress calls this a loophole and maintains that they never meant to create this opportunity.

If there is a bright side, it is that the amendment grandfathers anyone already using "file and suspend" as well as those who request it in the next six months.

Another strategy that has been eliminated is that of filing for a "restricted application" which allows you to direct whether you receive spousal benefits or your own benefit. Anyone who is 62 or older by the end of 2015 will retain the right to collect just spousal benefits starting at their full retirement age of 66, assuming their spouse has already claimed benefits or had requested a file and suspend within six months of the enactment. Future retirees who are younger than 62 (born 1954 or later) are not able to use this strategy.

Anyone younger than 62 by the end of 2015 will not have the option of collecting spousal benefits early. If they are entitled to two Social Security benefits, on their own record and as a spouse, they will now be required to file for all benefits at once and will be able to collect only on the higher amount. They will not be able to claim a spousal benefit first as under current law and then switch to their own retirement benefit at age 70. This change does not affect widow benefits. Widows or widowers will continue to have

the opportunity to restrict an application to only widow or only retirement benefits and later switch to the other benefit.

Medicare Changes

On the Medicare front, the looming 52% rate spike that was being threatened is now off the table. The recent budget deal held that to a more manageable 15% increase. The fix will be paid for with a $3-per-month premium surcharge over five years. However, what this does is kick the ultimate cost increase down the road, leaving an even bigger problem for future seniors. Most Medicare beneficiaries are protected by a "hold harmless" provision, which ensures that their monthly Social Security checks will not be reduced when Medicare's Part B premiums increase. The consumer price index used to adjust Social Security payments for inflation actually declined over the past year, resulting in no cost-of-living increase for recipients. In contrast, Part B spending increased about 6 percent. Despite the higher cost, premiums are not allowed to increase under the hold harmless provision. Any premium increase would reduce the Social Security check paid to millions of seniors.

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The 16 million who are not protected under hold harmless – including high-income seniors who already pay larger premiums than most others, new enrollees, seniors who do not pay their premiums from a Social security check, and individuals (primarily civil servants) who never qualified for Social Security- make up the loss in revenue. The premium increases would have been significant. Most beneficiaries who are not protected by hold harmless were slated to pay $159.30 every month next year. Seniors with high incomes would have paid substantially more, with premiums exceeding $500 a month for those in the top bracket.

The recent budget deal reduces the premium increase for those not covered by hold harmless who will pay $120.70 a month next year. Beneficiaries with high incomes will pay more, but even those in the highest income bracket will be charged about $100 a month less than would have been the case.

What will happen in 2017 remains to be seen. If inflation remains flat and Social Security cost of living is zero, then we have a repeat of this year with most recipients paying only the $104.90 monthly premium for another year.

We will continue to maintain our long-term focus during this time of constant volatility, review portfolios on an ongoing basis to take advantage of opportunities to rebalance, and ensure that cash levels are adequate to meet your needs.

Please keep us posted in terms of any cash needs you may have on the horizon so that we can ensure that sufficient cash is kept on hand, and as always, feel free to reach out to us with any questions you may have. This becomes even more important as we enter the holiday season and the end of the year.

Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

Enjoy the fall and have a safe, warm and very happy Thanksgiving.

Diahann

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