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Resolute Connections

This month we wanted to bring to light a few lesser known aspects of Social Security as we are often questioned about the program, see *Social Security Factoids below*. And this month an historical event occurred; all financial advisors will be required to forego any sales agenda and give advice that would benefit their clients when providing advice on retirement plans, in other words the advisor must be a fiduciary! For further details on this strange way, at least to brokers, of working with an advisor, which by the way we have always adhered too, see *Who is On Your Side?*

Our Driverless Future touches on the economic and traffic implications of the driverless car future – it is not that far away, and are you ready? *Crypto Bubble* discusses the Bitcoin craze, which may not be in the too distant future along with driverless cars.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Social Security Factoids

For many of our clients Social Security is a significant income stream in retirement; however, it is a part of retirement that most don't pay attention too, nor understand until they get near retirement. As a result we spend a lot of time educating clients on Social Security and helping them devise claiming strategies. Entire books have been written on those topics, but instead of overwhelming you with all the ins and outs of Social Security we thought we would periodically present some simple facts about this critical but little understood program.

- The Social Security wage base in 2017 is $127,000, up $8,700 from 2016. The wage base is the amount of one's income that is taxed at 6.2%; anything over $127,000 is exempt from the tax. However, all income is taxed by the 1.45% Medicare tax.
- Social Security does increase payments with a cost of living adjustment – sometimes. For 2017 it was 0.30%, little better than 2015's 0%, but lagging 2011's 3.6%. Depending on the period one looks at the long-term average is roughly 2.0%.
- Benefits can be reduced by earned income – people who are 62 through 65 by the end of 2017 can earn up to $16,920 before their benefits are reduced by $1 for every $2 over that cap. There is no income limit once you reach full-retirement age of 66 in 2017.
- And the one fact that everyone loves, and catches many by surprise, Social Security benefits can be taxed as income, once you start collecting! In general, if you are single and earn $25,000-$34,000, 50% of one's benefits are taxed; over $34,000 85% of the benefits are taxed. For married couples the range is $32,000-$44,000. Income for this calculation is one's Adjusted Gross Income (bottom number on page one of your 1040) plus any tax exempt interest plus 50% of your Social Security benefits.

Clearly enough for one day, but it does beg the question – why does Uncle Sam make our lives more difficult as we get older?

Who's On Your Side?

Friday, June 9 quietly marked an historic day in the financial services world. On that date, all financial advisors will be required to forego any sales agenda and give advice that would benefit their clients or customers—or, if they decide otherwise, to explain how and why they intend to give advice that instead primarily benefits themselves and their brokerage company. This rule only pertains to rollovers from a qualified plan like a 401(k) into an IRA, and to the investment recommendations for that IRA account. But it may be a first step toward something larger.

The polls consistently show that most Americans believe they already receive objective advice—called "fiduciary" advice by the profession and regulators. But the overwhelming odds are that they don't. There are half a million brokers who earn commissions if they can convince you to buy an expensive alternative to the thriftier, better-performing investment options on the market. That's more than ten times the number of advisors who adhere to a fiduciary standard. Government research estimates that consumers lost $17 billion a year to conflicted advice in the recommendations made by brokers and sales agents posing as advisors related to retirement plans. This, to put it bluntly, helps explain why so many Wall Street brokers are insulted if their annual bonus is in the low seven figures.

The actual number of real fiduciary advisors may actually be lower than this discouraging figure. A mystery shopper study in the Boston area found that only 2.4% of the "advisors" (most were almost certainly brokers) it surveyed made what most would consider to be fiduciary recommendations. On the other side, 85% advocated switching out of a thrifty portfolio with excellent funds into something a bit more self-serving.

An article in the most broker-friendly publication imaginable—Bloomberg—recently outlined some of the ways that you can be taken in by a sales pitch and never know it. (The full article can be found here: https://www.bloomberg.com/news/features/2017-06-07/fiduciary-rule-fight-brews-while-bad-financial-advisers-multiply. It notes that the brokerage industry—that is, the larger Wall Street firms, independent broker-dealer organizations and life insurance organizations—repeatedly fought the fiduciary rule in court, arguing, in some cases, that their brokers and insurance agents shouldn't be held to this standard because, despite what they said or what the companies' marketing materials proclaimed, they were nothing more than salespeople trying to effect a sale. The courts refused to block the rule.

It gets worse. Even though brokers are held to a sales standard—they are required to "know their customer" and to make investment recommendations that would be "suitable" to somebody in your circumstances (a very low standard that is appropriately known as "compliance"), a new study found that 8% of all brokers have a record of serious misconduct, and nearly half of those were kept on at their firms even after getting caught.

We don't know how long this regulation will be in effect. New Labor Secretary Alexander Acosta has announced that he's studying whether the rule that requires brokers to act in the best interests of their customers is good or bad for customers, and his comments hint that he thinks you would be harmed if suddenly you were able to trust the advice you receive. But there is one simple way to determine whether you're working with somebody you can trust.

First, ask your advisor directly to provide written documentation that he or she will act in your best interests. This should be no longer than a page and might be no longer than a sentence or two. There's even a "Fiduciary Oath" that many financial advisors are giving to their clients—without any prompting. If the broker hems and haws, then hold onto your wallet or purse, because chances are any recommendations you receive are going to cost you money that will be disclosed in the fine print of whatever agreement you sign, somewhere after page 79.

Our Driverless Future

By now, you're familiar with at least the concept of driverless cars—a new technology where computers will replace humans behind the wheel, gradually at first, and then all at once ten or more years down the (pun intended) road. But what you probably haven't seen is a comprehensive review of the interesting social changes a driverless world would bring about—and the potential investment implications of it.

The CFA Institute—the organization of professional investment managers—has published an article which takes us on a tour of that not-so-distant world. Start with the fact that cities and communities will be able to re-use (or develop) acres of space currently devoted to parking lots. A self-driving car will deliver you to your destination and then go park itself in a compact high-rise parking facility—and spend the time recharging itself, since it will also be electric. At the end of the day (or the shopping trip, or the sporting event) the car will be summoned to pick you up at the door and take you home. If your home is an urban apartment, then the car will drop you off before relocating itself to a parking facility. Alternatively, you might "subscribe" to a car service that will take you wherever you want to go without the need to actually own the vehicle.

In a city environment, this simple change would bring about a huge reduction in traffic, since many of the cars currently on the road are driving around hunting for a rare parking space. Traffic flows will be faster and less congested, making cities more pleasant to live in. The article even envisions the commute as a time for work or personal relaxation. Your office might be a detachable, mobile pod that could drive itself downtown while you're answering emails. If you were to take a trip to another city, your 5-hour drive can be spent productively.

Of course, a driverless society would eliminate the hazards of drunk driving, people texting behind the wheel, people falling asleep on the road—and prevent some 30,000 highway deaths each year. Since driverless cars are more precise, a 4-lane highway could become a 5- or 6-lane road simply by making the lanes narrower and using the curb spaces. Driverless cars might move more quickly, adapting to opportunities to move 80 or 100 miles an hour in safety. These shifts would eliminate traffic jams, making transportation easier and more convenient.

Meanwhile, think of all the time that parents currently spend driving their kids to soccer games, orthodontists and school. In the future, the driverless car would become the chauffeur while the parents live their own lives. Older people would no longer have to give up the keys to the car when they reach a certain age; instead, they could travel where they pleased without endangering others.

Cities would be more spread out, since fewer people would dread the shorter, painless commute on uncrowded highways.

Of course, there would also be negatives, and this is where the investment analysis comes in. The article points out that hospital emergency rooms would have fewer patients as they would no longer have to care for hundreds of thousands of people injured in auto accidents. Organ donation would be reduced. Auto insurers would suffer, since there would be little need for insurance in a world of nearly zero accidents. Car companies would have to shift their value proposition from a thrilling drive to more robust in-car entertainment systems. And millions of jobs involving driving trucks and cabs would be eliminated from our economy.

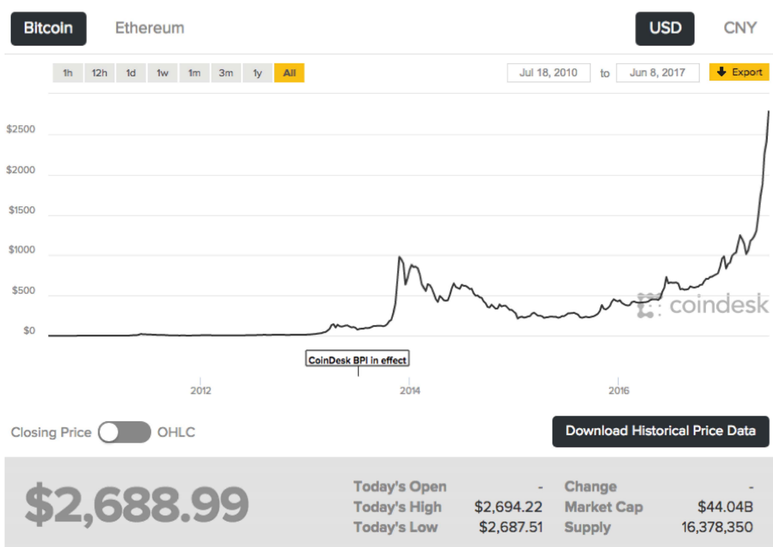
Are you ready for that world?

Crypto-Bubble

One candidate for the greatest bull market run in financial history is the recent run-up in price of the Bitcoin—the crypto-currency favored by international arms dealers and drug cartels, but also gaining acceptance at some retail locations. The so-called "internet of money" is not backed by any government, which its promoters say is a good thing, because the currency is not subject to QEs or over-caffeinated printing presses in Washington, Brussels or Tokyo.

Of course, these are not actually coins; the currency exists in "wallets" that are tracked through a global system that updates everyone's holdings; your "wallet" is on your computer, and sophisticated computers can "mine" new "coins" by solving complex algorithms that also help keep the money tracked. In the early days, there were lurid stories of peoples' wallets getting hacked, but the crypto-processing seems to be safer now.

As recently as 2011, you could have bought any number of bitcoins for practically $0. In fact, seven years ago, a programmer spent 10,000 bitcoins to purchase two Papa John's pizzas. Today, a single "coin" is selling for $2,690.14, no doubt causing the programmer to wish that he'd held onto his coins for a few more years. But as you can see on the chart, the ride for bitcoin holders has been bumpy, and much of the price run-up has been recent. If you've ever experienced a market bubble, you know this is what they look like.



But why would the price ever drop? For one thing, the Bitcoin currency now has crypocurrency rivals, among them a similar technology and market system called Ethereum. For the first time, Bitcoins actually make up less than 50% of the crypto-marketplace. For another, costs per transaction—which are supposed to be zero—have risen to an average of $4.75, and it sometimes takes a month for the transaction to settle.

Beyond that, there's a long-running dispute between the developers of Bitcoin who process transactions and the "miners" who create the coins, which doesn't look likely to be settled any time soon. It's been speculated that Bitcoin will split into two factions, which users will have to choose between. A possible glimpse into the future happened when a new startup called Coinbase was touted as the marketplace that would finally bring Bitcoin to the mainstream. Coinbase was backed by the New York Stock Exchange. After considering its options, Coinbase decided to create a new currency alternative to Bitcoin, called Token—which will be built on Ethereum technology.

The conclusion - This is not a bandwagon you want to jump on at current prices.

Sources:

https://www.bloomberg.com/news/features/2017-06-07/fiduciary-rule-fight-brews-while-bad-financial-advisers-multiply.

http://www.dolfiduciaryrule.com/.

Bob Veres Inside Edition Newsletter.

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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