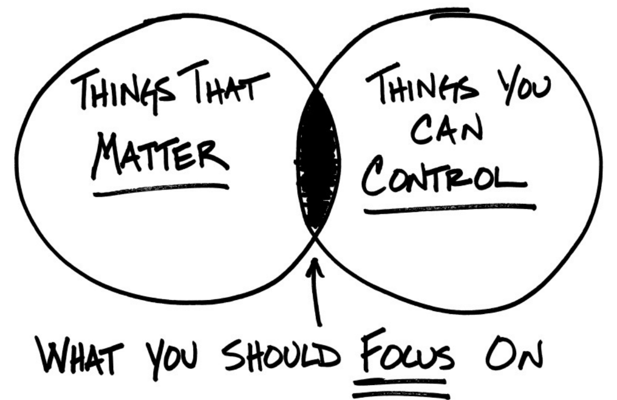
SETTING SAIL
FIRST QUARTER 2016

FOCUS ON WHAT COUNTS!



The "Things That Matter" for most of us include retiring comfortably without unnecessary financial worries, assisting with education costs for children and/or grandchildren, benefitting the community through appropriate charitable bequests, and providing opportunities for the next generation. All these long-term goals require long-term strategies.

We can control our behavior. We cannot control how investment markets perform. **Investor behavior has a greater impact on investment results than the investment returns**. That is particularly true in recent months with a lot of uncertainty in the economy and volatility in investment markets. Right now, the best things that investors can be doing include:

- Continue ongoing deposits to investment accounts (or if you're beyond the accumulating stage, stay with your planned withdrawals). Disciplined implementation of your plan is essential.
- Rebalance your portfolio to take advantage of lower stock prices. Think of it as buying stocks "on sale".
- Keep your current allocation model in place unless there is a known change in your personal financial situation affecting your risk profile.
- Don't dwell on the daily (or hourly) market moves. Watching it is not going to change it.

SETTING SAIL is written by Joseph R. Call, CPA/PFS, CFP® and Alan S. Campbell, MBA, CFP® and published quarterly by **SPINNAKER FINANCIAL ADVISORS, LLC,** a Registered Investment Adviser. The firm provides ***fee-only*** wealth management services, including investment advisory and management services and comprehensive financial planning and consulting.

As fiduciary advisors, we are deeply committed to helping families and individuals reach their lifestyle and financial goals by:

- ***Thorough and creative planning,***
- ***Disciplined investing, and***
- ***Reduction of execution, tax, and management costs.***

For more information about our firm, including articles about financial planning and wealth management, visit our website. To learn how we can help you reach your goals, please contact us for a free consultation. Our phone number is 208-542-0742 or you can contact Danielle Dursteler at dani@spinnakerfinancial.com.

- Stay focused on your long-term goals. Internalize them. Imagine how much you're going to enjoy achieving them and the impact those goals will have on your life.
- Avoid the ongoing barrage of negative information from the consumer financial media.
- Stay healthy. It may be as crucial to your retirement plan as your investments.
- Delegate the worrying. Let us worry about your finances for you. We are committed to helping clients reach their long-term financial and lifestyle goals. You've asked us to do that for you. Let us do it! --*JRC*

UNDERSTANDING THE NEW SOCIAL SECURITY RULES

On November 2, Congress passed new rules designed to close "loopholes", phasing out two well-known strategies for claiming benefits: 1) File and Suspend, and 2) Restricted Applications. Here's an overview of these strategies and how they are being phased out.

First, those who are already claiming Social Security benefits will not be affected by these new rules. Their benefits will continue as scheduled.

File and Suspend: Social Security rules state that a spouse cannot claim a spousal benefit based on the work history of the working spouse until the working spouse has filed for their own benefits. One way around this rule has been for the working spouse to file for benefits and then immediately suspend their benefits. This allowed the lower earning spouse to receive spousal benefits and the working spouse to keep their own benefit growing while delaying the first payment date.

The new rules state that if benefits are suspended then any spousal benefits will also be suspended with the worker's benefits. This change goes into effect on April 30, 2016. This means that the door is closing but it still open for a few more months. The only caveat is that workers must have reached their full retirement age by the time they file and suspend. Effectively, this means that file and suspend is only open for those who turn 66 by April 29, 2016 (born by April 30, 1950 or earlier.)

Restricted Application. Under the old rules, a spouse who had reached their "full retirement age" could restrict their application to only file for spousal benefits while allowing their benefits based on their own working history to grow until as late as age 70. At that time, if their own benefits were now higher, they could switch to their own benefits. This strategy has been referred to as "some now, more later."

Going forward, all applications will be deemed a filing for both individual and spousal benefits with the higher amount being paid to the applicant. However, those who have already taken advantage of filing a restricted application will not have their benefits changed and can file for their own benefit later. In addition, anyone 62 or older at the end of 2015 (born in 1953 or earlier) will still have this option available to them whenever they decide to file for benefits.

A similar situation presents itself for widows and widowers, but this bill did not change their rules. Widows can continue to receive survivor benefits as early as age 60 and delay their own benefit to as late as age 70.--*ASC*

THE COSTS OF HIDDEN INFLATION

According to the US Bureau of Labor Statistics (BLS), inflation has run just a little over 1% for the past few years based on changes in the Consumer Price Index (CPI). However, there are some tricks the government uses to calculate this rate. In the real world, the actual inflation is much higher. Here are some examples:

- **The Hidden Hamburger Price.** Until recently, when you ordered a hamburger at McD's or BK you could, if you wanted to, pay another $0.20 or so, for a cheeseburger. Now only cheeseburgers are on the menu, and, although they were happy to charge extra for adding the cheese, they aren't so inclined to reduce the price for taking off the cheese.

I don't like cheeseburgers. For me, the hamburger price just went up, somewhere in the range of 8% to 10%, which isn't reflected in calculating the inflation rate because, after all, cheeseburger prices haven't changed.

The same thing happens with other items. Changes in prices of autos, computers and many other items that result from government mandates or improvements are frequently excluded from government calculations.

- **The Shrinking Ice Cream Carton.** For decades, a standard ice cream carton was 64 ounces (half-gallon, 2 quarts, whatever). Then the size shrunk to 59 ounces, and now it isn't that unusual to see the same brand, in a container that looks a lot like the previous one, with only 48 ounces and at the same price it had when it was 64 ounces. If the base price was $4.00 for the 64-ounce container, there's effectively a 33% increase in price, which the BLS ignores. (This applies to a lot of food items—cereal, cake mixes, juices, etc.)
- **Let Them Eat Roast!** Let's look at a hypothetical family that eats steak, at $6.00/pound, once a week. Then, the price of steak goes to $8.00/pound (another 33% increase) so they stop eating steak, and start eating chuck roast at $6.00/pound. (Yes, I'm making this a lot simpler than it really is.) The increase in steak prices isn't considered in computing the inflation rate because families have substituted roasts for steaks. The fact that they're not spending more means there has been no change in their cost of living, even though they're not eating as well.

These are just a few of the items that the CPI ignores. To demonstrate flaws in CPI calculations the American Institute of Economic Research (AIER) has tried to determine "real inflation" by calculating the "Everyday Price Index" (or EPI) which is based on actual prices of goods and services. While its validity hasn't been widely accepted, in 2011, for example, the increase in the CPI was 3.1% vs. 7.8% for the EPI,

Why does this matter? One of the biggest assumptions we make when helping clients plan for retirement (which may last 30 to 40 years) is how the cost of living will increase. For example, the future value of $1.00 today, inflated at 3.1% for 30 years is about $2.50. That same $1.00, inflated at 7.8% for the same period is about $9.50. Which should you be prepared for?--*JRC*

Annuities: The Good, Bad and Ugly

One of the products we find consistently misused is annuities. When used properly, annuities can provide income, as long as investors understand the underlying cost (particularly the cost of potential investment returns they are foregoing).

On a Personal Note . . .

The **Itaiian Place** was started in Utah in the early 1970's, and Nola and I have been eating their sandwiches for at least forty years. Our favorite location is on State Street in Orem, right across the street from the University Mall. The Italian Place is known for its wonderful sandwiches, with the most popular (and my favorite) being the Steak and Everything: thin slices of sirloin steak, with mushrooms, tomatoes, green peppers, onions and provolone on a wonderful bun. There's a bit of a dispute about who actually owns The Italian Place name. For example, The Italian Place in Logan is not affiliated with the ones in Utah Valley. They have several newer shops at Provo, Lindon, and Spanish Fork, but we still like the old place in Orem.--*JRC*

On a recent trip to Indianapolis, I tried **Harry & Izzy's**. The restaurant has a long history in the area. It was originally known at St. Elmo Steak House and was later renamed after the two partners, and longtime friends from childhood, Harry Roth and Izzy Rosen.
The décor had a 1920's feel. The walls were filled with small picture frames with black and white pictures from the era; many involving baseball, boxing, and of course, Indy Car racing.
Their signature dish is an appetizer, spicy shrimp cocktail, which was easily the best shrimp cocktail I have ever had. The steak was good, not great, but the mashed potatoes were excellent. Overall, I would go back again just for the shrimp. --*ASC*

A recent article in Investment News described how sales of fixed-income annuities (FIA) were "soaring in popularity", quoting annuity salesmen who say their popularity was because buyers "needed" these products. FIAs typically have a "guaranteed" return in the range of 1-3%, and then limited participation in some kind of a stock index. Since the stock index participation ignores dividends earned, and is typically capped at a low level (say, 6% for a product using the S&P 500) a long-term investor can expect to earn in the range of 2-4% annually. While that may sound attractive to those that were battered during the most recent bear market, in reality it is a fraction of what a long-term investor can expect to receive with a broadly allocated stock and bond portfolio.

These products are enormously profitable to insurance companies who invest investor funds at market rates (which, for a moderate allocation (40% bonds and 60% stocks) can be expected to earn in the range of 7 to 9%) while paying their customers about half of that.

My take? The reason they are so popular is this profitability to the insurance companies!!! Insurance companies make a lot, and they can provide huge incentives to their sales reps. Brokers can expect to earn in the range of 4% to 6% on the sale of a mutual fund, and up to 7% on the sale of conventional variable annuities. Fixed income annuities (FIAs) typically pay commissions up to 10%. Clearly, a broker motivated by earning almost double the commission they'd get on alternative products, will work extra hard to sell the FIA to clients.

FIA contracts are extremely complicated. While there are guaranteed minimum returns to avoid losses (although such returns typically won't keep up with inflation) the calculation of the possible upside benefit is extremely convoluted. Index returns are limited first by a percentage of the index return (say, 80%) with a cap (frequently as low as 6%) on what the investor receives. Optional benefits (such as guaranteed withdrawal benefits) just add additional costs to the product (thereby lowering the annuitant's potential return.) Because these products aren't considered "investments", the SEC disclosure and fair-dealing requirements that mutual funds have don't apply. I've seen FIA "disclosure materials" that were well over 150 pages in small print, and almost impossible to read through. In addition, FIA sellers are not required to meet the fiduciary standard; as long as, in their opinion, the product is "suitable" for the client, they are not required to do what is best for the client.

It is entirely possible that there are times when a FIA is what is best for an individual. Honestly, I haven't figured out when that is yet.--*JRC*

Fate often puts all the material for happiness and prosperity into a man's hands just to see how miserable he can make himself with them.

--Don Marquis (1878-1937), humorist, journalist, author, novelist, newspaper columnist and playwright.

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