FINANCIAL SYNERGIES®
WEALTH ADVISORS

Q2 2018

Quarterly Newsletter

INSIDE THIS ISSUE

Observations

MIKE BOOKER, CFP®, CHFC®, CFS®

SHAREHOLDER, FINANCIAL ADVISOR

We are traveling through a normal business cycle, it seems to me. While we are clearly not at the beginning of the cycle, I don't think we are at the end of it either.

Recently, market volatility has become an obnoxious travel companion on our trip through the business cycle, however. Excessive volatility can throw investors off balance. Don't let it throw you. Together we will stay focused on your long-term goals. You have benefited from, and will continue to benefit from, the rational behavior a long-term perspective provides.

Financial Synergies Named to Financial Times' 300 Top Financial Advisers

Financial Synergies Wealth Advisors is thrilled to announce we've been named to the 2018 edition of the *Financial Times* 300 Top Registered Investment Advisers. The list recognizes top independent RIA firms from across the U.S. This is the third time we've been included.

This is the fifth annual FT 300 list, produced independently by the *Financial Times* in collaboration with Ignites Research, a subsidiary of the FT that provides business intelligence on the asset management industry.

RIA firms applied for consideration, having met a minimum set of criteria. Applicants were then graded on six factors: assets under management (AUM); AUM growth rate; years in existence; advanced industry credentials of the firm's advisers; online accessibility; and compliance records. There are no fees or other considerations required of RIAs that apply for the FT 300.

The final FT 300 represents an impressive cohort of elite RIA firms, as the "average" practice in this year's list has been in existence for over 22 years and manages $4 billion in assets. The FT 300 Top RIAs hail from 38 states and Washington, D.C.

We are pleased and excited to welcome Skyler Denny, CFP®, to the team as our new Associate Financial Advisor. Skyler has a passion for assisting people in making financial choices that help them meet and exceed their goals. He works primarily with Pathway clients, assisting younger professionals who are in the wealth accumulation phase.

Skyler is a native Houstonian, Texas A&M grad, and an avid woodworker. He lives in Tomball with his fiancée, Jordan, and their two dogs Blaze and Bruce.

We've Changed Our Name!

Okay, so it's really nothing too dramatic, but we've officially changed our company name to **Financial Synergies Wealth Advisors, Inc.** Rest assured that nothing else about our company has changed. We just feel that this slight change to our name more accurately reflects the services we offer.

We don't just manage money and assets for our clients, although investment management is a critical component of what we do. We also provide comprehensive financial planning and wealth management services, which can include:

- Retirement planning
- Cash flow analysis
- Education planning
- Tax planning
- Estate planning
- Insurance planning
- Social Security analysis
- Medicare analysis
- Asset allocation
- Investment management
- And the list goes on....

If there is something that is beyond our scope internally, we have top-notch partners in the areas of insurance, estate planning, taxes, etc., who can handle all of your needs in those areas.

If there is a service you are in need of please let us know. We are your *Wealth Advisors*.

Trade Tensions Still Weigh on Markets

MIKE MINTER, CFP®, CFS® | SHAREHOLDER, PORTFOLIO MANAGER

With the second quarter behind us, many investors continue to worry about escalating trade tensions. This has been a challenging environment for all markets, especially international ones. Fears of a protracted trade war, slower global growth, and a stronger U.S. dollar have resulted in heightened volatility and a sliding market.

As we've discussed in the past, over the long run, prices in the stock market are based on both economic fundamentals (i.e. "cash flows") and perceptions of risk (i.e. the "discount rate"). Last year, the stars aligned on both fronts. Global growth swung into high gear while perceptions of risk were at historic lows. This resulted in a rapid rise in the stock market with virtually no volatility. But as every long-term investors knows, such low levels of volatility are unsustainable.

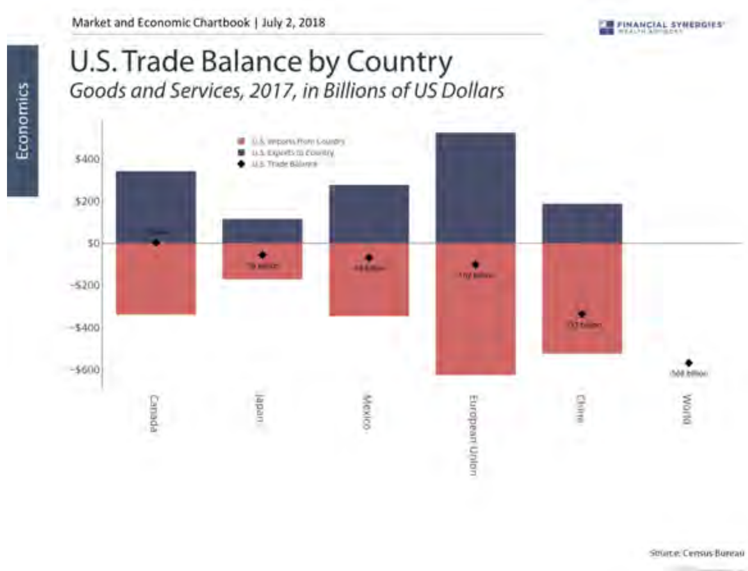
To that end, the administration's stance on tariffs should come as no surprise since this has been a major policy point since the presidential election. While there is significant short-term uncertainty as trade negotiations escalate, the most likely scenario is for tensions to be eventually resolved.

In the worst case scenario, tariffs would create a lose-lose scenario for the U.S. and its trading partners. However, even if this were to occur, economic and earnings growth expectations for the U.S., developed markets, and emerging markets are strong enough to absorb the impact. For instance, investors expect Emerging Market earnings to grow substantially over the next twelve months. Even if these expectations were to decline, it would still represent a significant gain in that asset class.

With the global economic backdrop still on sound footing, both U.S. and international investments should continue to look attractive once these trade issues are resolved and investors shift their focus back to measures of fundamental growth.

1. The market is throwing a tariff tantrum

Markets continue to react to ongoing threats of trade tariffs between the U.S. and its major trading partners. In all likelihood, current uncertainty represents an opening gambit in trade negotiations, rather than an ending point. This is because trade policy has been a key political issue for the administration. Many U.S. workers have faced tremendous difficulty as technology has made many jobs obsolete and globalization has moved jobs overseas. The administration's goal of protecting domestic industries taps into this unrest.



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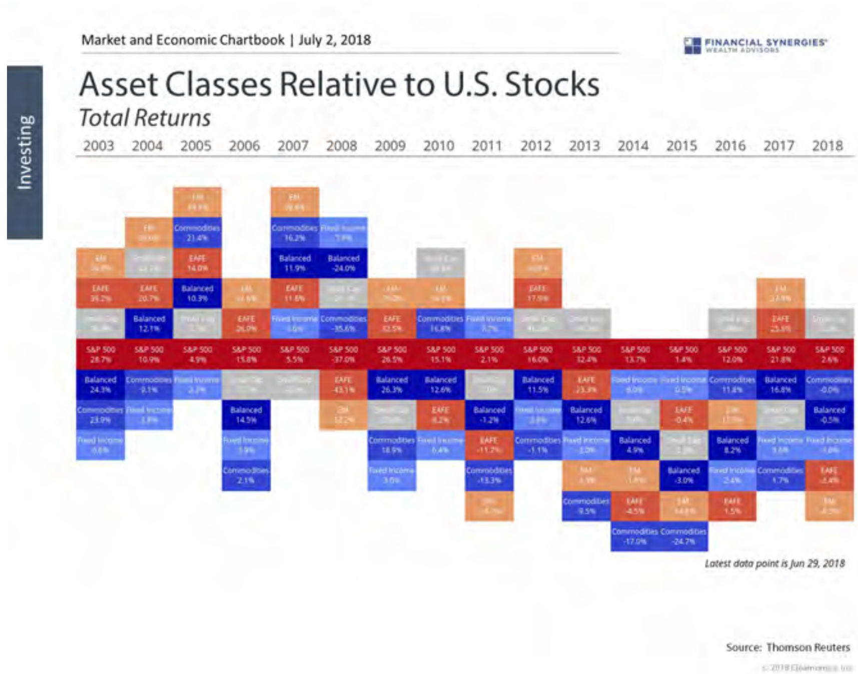
The chart on page three shows the U.S. trade balance across major trading partners. In 2017, the total U.S. trade deficit reached $568 billion. Countries such as China and Mexico are easy political targets due to our sizable imbalances with these trading partners. However, the U.S. ran significant trade deficits with our other allies as well, including the European Union and Japan. Thus, no country, whether an ally or not, is safe from potential trade renegotiation, resulting in market uncertainty.

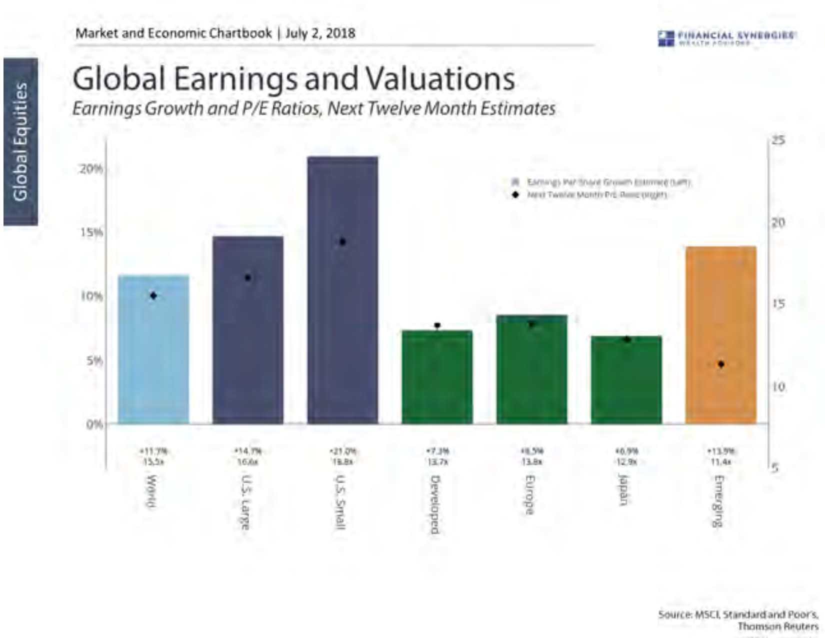
2. This is a challenging environment for international investments

While the U.S. market has held on to slight gains for the year, international markets (shown on the chart as MSCI EAFE and EM) are still in negative territory. This is because some measures of economic growth have stalled out this year, trade tensions have created significant uncertainty, and the rising U.S. dollar has put pressure on international investments.

Still, international investments are expected to be more volatile than U.S. stocks. Over the past 15 years, the EM and EAFE indices have swung wildly – occasionally the best performers, but also occasionally the worst. At the moment, fundamentals still look attractive for these markets, as shown in the next chart. Thus long-term investors can take advantage of the upside in these asset classes while smoothing over year-to-year swings by staying well-diversified.



3. Global growth is still healthy and international stocks are still attractively valued



The chart to the left shows that worldwide corporate earnings are expected to grow by nearly 12% over the next twelve months. U.S. large caps, developed markets and emerging markets are expected to experience earnings growth of roughly 15%, 7%, and 14%, respectively.

These are solid growth numbers that represent an acceleration from the last several years, especially for international companies. Additionally, valuations in many global markets aren't yet as high as in the U.S. This suggests that there are still attractive opportunities for internationally-diversified investors.

Source: Clearnomics

Social Security Part 6:
When to File, and Remaining Strategies

This is a series which appears on our blog. If you have missed the other articles, please contact us and we can email them or mail them to you.

WILL GOODSON, CFP® | FINANCIAL ADVISOR

Over the last several months, we've covered the ins and outs of Social Security. In a series on our online blog, we're discussing the decision on when to file for benefits. We're also going to review what remaining strategies exist (if any). With that, let's get started.

The most common question we receive from clients regarding Social Security is "When should I begin taking my benefit?" Like most financial planning questions, the answer is "it depends." There are many variables that go into computing the benefits themselves. When it comes to the decision on when to start, the two most important considerations are (1) the need for income and (2) health & longevity.

There are dozens of online tools you can use for determining the "best" time to file for Social Security. The downside to many of these calculators is they require you to input your life expectancy. If you expect to live a long time, the results will almost always skew toward delaying benefits for as long as possible. Doing so will result in a larger cumulative lifetime benefit. Whereas if you are in poor health or your family history suggests you may not live well into your golden years, it will recommend taking benefits much earlier.

For a high wage earner, the breakeven point between filing for benefits early at age 62 vs. Full Retirement Age (age 66-67) is typically in your late 70's. In this scenario, if it seems reasonable that you will live beyond that point, it is best to wait until Full Retirement Age (FRA). Similarly, comparing benefits at FRA vs. the maximum benefit at age 70, the breakeven point is your early-to-mid 80's. Again, if you expect to live a longer life, waiting until age 70 gives a greater chance of receiving a higher cumulative benefit from Social Security.

The difficulty is knowing how long you can expect to live. The need for income is much easier to determine. For many people, Social Security is the biggest retirement asset they have. While it may be ideal for these people to wait for a higher benefit, many may need the income at age 62 and must accept taking a reduced benefit. As we discussed in a previous post, it's important to consider the earnings test if you plan to file early and continue to work.

If you do not have an immediate income need when you become eligible, waiting beyond FRA to receive Delayed Retirement Credits (DRC) has several benefits. You will receive a guaranteed 8% increase for each year you wait up to age 70. If you're married, this increased benefit will rollover to your spouse as a survivor benefit when you pass away. Lastly, pushing your benefits out will likely help avoid paying additional taxes for those few years. As we covered in Part 4, the tax thresholds for Social Security benefits are low; most of us would prefer paying as little tax as is necessary, especially if you can make do without the additional income.

That said, some people just want to collect their Social Security benefits as early as possible. The rationale is that they've paid into the system their entire career, and they're ready to reap those rewards. In a way it's hard to argue against this line of thinking. However, it's critical to understand the consequences of filing early and how it can reduce not only the benefit you receive but also any spousal and survivor benefits as well.

To wrap up this series on Social Security, it is important to cover what strategies remain available. With the passing of the Bipartisan Budget Act of 2015, the most prominent filing strategies were put to an end. The most generous was the "file and suspend" strategy. This applied to married couples who were both eligible for retirement benefits based on their individual working records. Using this approach, each spouse upon reaching FRA would suspend their retirement benefit and simultaneously file for spousal benefits. Thus, each spouse was receiving 50% of the other spouse's benefit while their own retirement benefit continues to grow. At age 70, they

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would roll over to their now maxed out benefit. This was a very fruitful strategy for those who knew about it, but it was permanently eliminated in April 2016.

The most notable strategy that remains is the Restricted Spousal Application. This is for married couples who each qualify for retirement benefits. To be eligible for this approach, you must have been born in 1953 or earlier. If you were born in 1954 or later, you're out of luck. As with all spousal benefits, one spouse must currently be receiving their Social Security benefit for this strategy to work.

Let's use an example to illustrate how it works. John and Mary are married, both were born in January 1952, and each qualify for $2,000/month from Social Security. At Full Retirement Age, John decides to file for benefits but Mary wants to wait. With John actively receiving $2,000/month, Mary suspends her own benefit and files the Restricted Spousal application. Doing so, she receives $1,000/month (50% of John's benefit) and she also begins accumulating DRC credits. At age 70, Mary is now eligible to receive $2,640 per month (32% increase on her original $2,000/month benefit).

The Restricted Spousal application can be a powerful strategy for those who meet the requirements. As time goes by, fewer and fewer people will be able to use this approach. The goal of the 2015 legislation was to close these "loopholes" and make the filing process more streamlined.

Social Security is very complex and the decision on when to take these benefits can have a domino effect on your retirement outcome. You must consider a variety of factors including both your actual health and your financial health. There are a lot of uncertainties when it comes to retirement. The decisions you make regarding your Social Security benefits are one of the few areas where you have a lot of control. Armed with the right information, we hope you can make the best decision for you and your family.

If you have questions regarding your own Social Security benefits, please feel free to contact us today.

Curiosity

KEVIN NELSON, CFP®, CFDA™ | FINANCIAL ADVISOR

It's so easy these days satisfy your curiosity. With Google, mobile devices, podcasts, online books, etc., you don't have to wander to the library or get stuck with only on one good channel on TV. Currently, podcasts are my favorite. NPR's Planet Money and Malcom Gladwell's Revisionist History are what I'm listening to, mostly because of their randomness and variety of topics.

Malcom's podcast theme is "Malcolm Gladwell's journey through the overlooked and the misunderstood." Some of these stories were big at the time and are ones I have never previously had the time to examine further. He also has many views which are different from mine which challenge me to think differently. (For you golfers out there, be sure listen to Season 2, Ep. 1 where he blasts golfers and golf courses!)

There is a two-part series where he talks about memory and how it can betray us (Season 2, Episodes 3 and 4). In Ep. 3, Gladwell discusses various interviews with Larry Adler (famous actor and harmonica player) on a single topic and how it diverts ever so slightly in memory from the first interview to the last. Side note, you should go to YouTube and watch him play Gershwin's "Rhapsody in Blue". If you are not familiar with the tune, the United Airlines advertisements get their Jingle from this song. Yes, that's right I just recommended you listen to a harmonica player. See how easy it is to be curious?! The episode emphasizes how we remember things over time and how they can and will change.

"Free Brian Williams" is the title of the fourth episode. Yes, the Brian Williams from NBC. If you recall, Williams lost his anchor spot due to his interview with David Letterman regarding his account of his helicopter being shot down. Gladwell argues that his memory betrayed him as opposed to him lying and embellishing the story. Gladwell believes that how we remember things and how we tell them over and over again will ultimately lead to nuanced differences in the story. In this episode Gladwell interviews a memory expert and goes into great detail on this fascinating topic – it's worth a listen.

I think it is important to be curious because it's fun, you learn and change, and, plus, it's so easy! Now let's relate this back to the financial world since that's why you're reading this newsletter. Individual stocks can be tricky, and if we are not curious enough we only see headlines. What do you think the best stock pick has been since 2010? Netflix 2,421%?, Amazon 1,468%?, Tesla 1,204%?, or Apple 419%? Nope! Its Domino's pizza, up 2,501%!