FINANCIAL SYNERGIES®
WEALTH ADVISORS

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INSIDE THIS ISSUE

Spending Your Way to Prosperity

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When the markets drop in value they tend to have a negative effect, albeit temporary, on our feeling of well-being. When the markets are on the upswing, we report a feeling of security and well-being. It shouldn't be this way, but it is a fact of life. My hope is that you are not letting temporary drops in the market erode your feeling of financial security because dips are a part of an investor's investing life…they are going to happen! But, you will be handsomely rewarded along this bumpy ride. Losses are temporary. Markets sort themselves out and move on.

…Continued on next page

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...Continued from page 1

No question that it's tough on all of us who have saved money over the course of our lives to see it go down in value. So, it is about the act of saving, and more importantly, spending that I am writing about this quarter.

The media provides many articles that give saving rules of thumb like "save 10%-15% of your annual income" and the savings rate of Americans is "too low" at 3.2%. But, this presumes a household has extra money to save in the first place! The reality in America is that there is often no money left at the end of the month to save. So, technically the savings rate of Americans isn't the problem, it's the spending rate. But the question remains: what is a prudent spending rate for typical household expenses? What amount is or is not appropriate? Spoiler alert: It's complicated.

First of all, it is impossible to examine one's savings rate in a vacuum, not looking at their spending activities as well. Ideally, households spend less than they take in, with those leftover dollars being saved and invested. Since this is not always the case, we simply cannot say it is the "savings rate" that defines a successful path to retirement. Because in the real world, people don't often choose to save as much as they choose what to spend. It's the spending rate that's key here.

It is a simple fact that a household is financially healthier if the spending rate is lower. In households where fixed spending (eg: housing and transportation) is relatively high (eg: lower income households or higher cost-of-living areas), trying to focus on cost-cutting isn't likely to have much impact because there isn't a large enough percentage of the budget that is discretionary and flexible to cut. Median spending by category as provided by the Bureau of Labor Statistics shows housing, transportation and food as the three highest percentages households spend their money on at 25.3%, 12.1% and 9.6% respectively. In the lowest income households, housing costs are a whopping 90% of income. In this case, earning more through a promotion at work or starting an on-the-side business is the most effective way to impact the spending rate for these lower income households.

Debt is a big part of the equation, of course. There are rules of thumb on this subject, too. Home mortgage lenders have guidelines that must be met before they will lend a home-buyer money. They are known as debt-to-income limits. PITI (principal, interest, taxes and insurance) payments should represent no more than 28% of income. But here's the problem: this percent is the maximum amount the lender thinks they can get from the borrower to maximize the lender's interest payments without taking unnecessary risk of loan default. So, this 28% isn't a prudent or recommended debt-to-income ratio. A prudent ratio should be less.

For the majority of Americans, it's the non-discretionary expenses like housing and transportation have the most potential to move the needle toward financial independence, not cutting the 5% spent on apparel or the 3.9% spent on entertainment. Current generations and especially future generations must understand that, other than increasing their income, the key to financial independence could very well be the decisions they make about the car and house they purchase, not the fancy shoes or latte they decided not to buy to save some money! Reasonable spending rates matter more than savings rates.

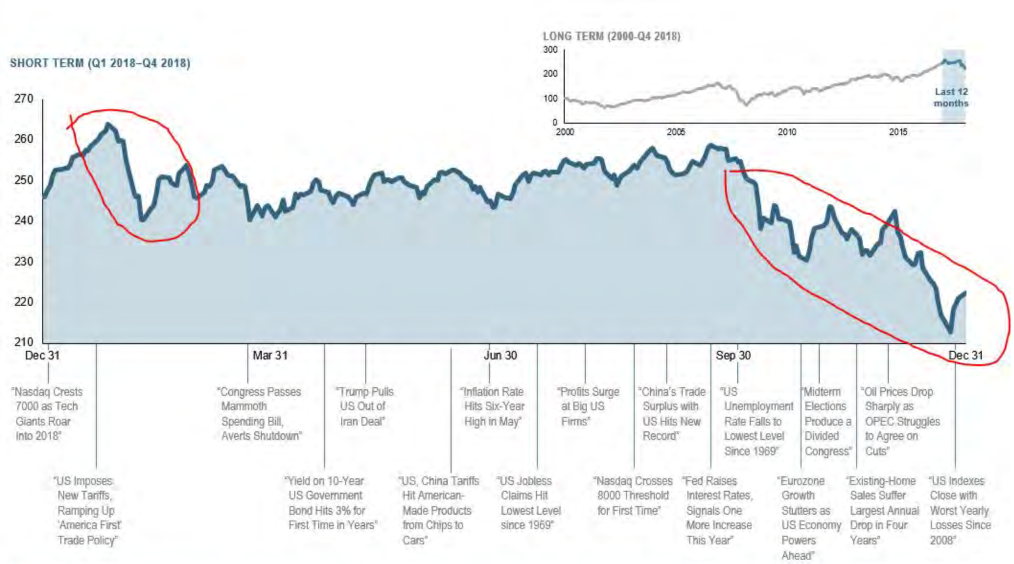
A Brief Note from our Compliance Officer

As part of our on-going compliance program, we will be making an effort to collect your updated contact information as you come in to the office for meetings this year and going forward. This information can and may include your updated phone numbers, drivers license numbers, addresses, etc. We are required to have up to date information on our clients by our regulators. We keep your information safe in accordance with our privacy policy and regulatory requirements. If you have any questions or concerns, please contact Marie Villard at mvillard@finsyn.com or x104.

2018, Don't Let the Door Hit You!

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

Okay, so it wasn't all bad, but my guess is most investors aren't sad to see 2018 go. In case you need a refresher, below is a timeline of events and market performance for the year.



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

The line graph is a representation of the MSCI All Country Index, which basically tracks the performance of the global stock markets. I've circled the two major downturns of 2018. We've all but forgotten about the correction that occurred between late January into February. And things were relatively calm until the 4th quarter, when the market hit the skids again.

It was bad enough for US large-cap stocks, but even worse for small-caps and international stocks. The only silver lining was that bonds actually held up quite well during the turbulence, mostly delivering positive returns, which is exactly why we hold bonds.

You can pick your poison trying to explain what led to the correction – trade wars, the Fed raising rates, political instability, etc. But here's the thing – none of that matters. That 2018 timeline of events above looks like any other year. Every year we, as investors, have a multitude of global crises to contend with. Any of which you could point to as a reason for the market to tank. But the stock market is not concerned with the present, and certainly not the past.

The saying in the financial industry is that the stock market is "forward looking." It's the collective conscious of investors trying to anticipate what's around the corner. The market is a leading indicator, not a follower. It's usually two steps ahead of the economy. This is not to say that the stock market and economy don't move in the same direction. Over the long-term when the economy is rocking, the market usually is, too. But they can certainly decouple.

Take the 2008-2009 financial crash for example. The economy struggled for years after 2008, yet the stock market was seeing tremendous gains. This is because it's forward looking, and there was much more upside in stocks than downside during that time.

Another example was after the 2016 Presidential Election. Stocks were shot out of a cannon because of the belief that we might see greater economic growth and lower taxes ahead. At the time, taxes hadn't decreased and we hadn't sniffed 3% GDP growth in years, but the market anticipated these moves going forward.

If I were to tell you at the beginning of 2018 that GDP growth would top 3%, job growth and wage growth would increase tremendously, and unemployment would reach record lows, would you have guessed the market would go down? Probably not. But the market wasn't looking at the present, it was anticipating the future.

I don't mean to suggest that the recent market pullback means we are in for tough economic times ahead. I simply mean that it's a recognition that we are probably in the late innings of the recovery, rates are rising, and unemployment is at record lows. The market is already pricing this in.

Market volatility is normal, and corrections and recoveries can happen swiftly.

On average, the market fully recovers in four months. This most recently occurred during the market corrections of late 2015 and early 2016. While these recoveries don't occur over days or weeks, and certainly each correction is different, patient investors are rewarded for riding out the storm.

E + R=O, A Formula For Success*

HEATH HIGHTOWER, CFP® | SHAREHOLDER, FINANCIAL ADVISOR

Jack Cranefield, author of *The Success Principles*, believes that highly successful people are particularly capable of influencing outcomes by controlling their own reactions to events, rather than controlling the events themselves. And I think he's on to something! It's impossible for individual people to control large-scale events (i.e. the stock market, politics, or traffic). But we can control how we react to these events. This means that the outcome of any event (positive or negative), is influenced by how we react to it.

When investors experience a down market, they have an opportunity to react in either a positive or negative way. Unfortunately, investors often react in ways which worsen their outcome. Some may react by changing the investment philosophy or by chasing market returns. Others may react by selling their investments while they are down. These kinds of negative reactions will inevitably result in negative outcomes. When an investor chooses a negative response rather than a positive one, they fail to achieve a positive outcome.

Event + Reaction = Outcome

Today we find ourselves amid a global market downturn (the event). This quarter has been particularly volatile. Unfortunately, the market is outside of our control. It's often my job to help investors with the reaction piece of the equation. Here is some information that I think should be considered as you decide how to react to the recent market decline. The chart below was created by Eric Nelson, CFA of Servo Wealth Management. Here he shows the worst 4 quarters for an all stock global portfolio since 1995 and then contrasts the loss to the 12-month return that immediately ensued in both stock & bond markets**.

Time Period	Total Return	Next 12 Months for Stocks	Next 12 Months for Bonds
July to September 1998	-16.9%	25.2%	4.4%
July to September 2002	-19.3%	33.5%	4.7%
July to September 2011	-20.9%	26.9%	3.9%
October to December 2008	-25.2%	33.4%	4.2%

The chart above suggests that downturns like these are typically a buying opportunity for stocks. When the market falls in value, as it has recently, many investors choose to sell stocks and buy fixed income (bonds or cash). But history has shown that selling out of a market that has already fallen in value can be the wrong reaction at the wrong time.

Event + Reaction = Outcome

To be clear, I am not predicting that the market will immediately recover. It's impossible to predict market returns. But I am suggesting that if an investor wants to influence the outcome they experience, they must first choose to respond in a positive way.

I'd love to know what you think about the idea of influencing your own investment outcome. Feel free to email or call me if you'd like to discuss what the appropriate action should be for you. I look forward to hearing from you!

*Adapted from "E+R=O, a Formula for Success," The Front Foot Adviser, by David Jones, Vice President and Head of Financial Adviser Services, EMEA.
*Jack Canfield, The Success Principles: How to Get from Where You Are to Where You Want to Be
**Stock Allocation = 21% DFA US Large Company (S&P 500) Fund, 21% DFA US Large Value Fund, 28% DFA US Small Value Fund, 18% DFA Int'l Value Fund, 12% DFA Int'l Small Value Fund, rebalanced annually.

**Bond Allocation = DFA Five-Year Global Fixed Income Fund

Planning for 2019: Changes to Retirement Plan Limits, Medicare & Social Security

WILL GOODSON, CFP® | FINANCIAL ADVISOR

As we enter a new year, it's important to review changes that impact investors – both accumulators and retirees.

For those who are still working, the IRS recently released contribution adjustments for retirement accounts like 401k plans and IRAs. There were also slight adjustments to Health Savings Accounts (HSA) as well if you are on a high deductible health plan. See the chart to the right for the new 2019 contribution limits.

Account Type	2018 Limit	2019 Limit
401k & 403b Plans - under age 50	$18,500	$19,000
401k & 403b Plans - over age 50	$24,500	$25,000
Traditional & Roth IRA - under age 50	$5,500	$6,000
Traditional & Roth IRA - over age 50	$6,500	$7,000
HSA (Individual) - under age 55	$3,450	$3,500
HSA (Individual) - over age 55	$4,450	$4,500
HSA (Family) - under age 55	$6,900	$7,000
HSA (Family) - over age 55	$7,900	$8,000

It's important to note that the annual IRA contribution limit is comprehensive. You can contribute to a Traditional and Roth IRA in the same year, but the total cannot exceed $6,000 ($7,000 if you're over age 50). Roth IRAs contributions are limited based upon income. If you're single, the income phase-out range is $122,000 to $137,000. If you're married, the phase-out limit is between $193,000-$203,000.

Retirees will also see changes related to Social Security and Medicare. Social Security benefits will receive a 2.8% cost-of-living adjustment (COLA) for 2019. According to the AARP, this is the largest COLA adjustment in 7 years. The typical Social Security recipient will see their annual benefit increase by $468.

However, Medicare Part B premiums have also increased, which slightly dampens this Social Security COLA adjustment. Part B premiums have increased from $134/month in 2018 to $135.50/month for 2019. The annual deductible for Part B also increased from $183/year to $185/year for 2019. Medicare recipients typically pay 20% of covered medical services after the annual deductible has been met. The use of a Supplemental or Medicare Advantage plan can further manage these ongoing medical expenses each year.

Medicare Changes	2018 Cost	2019 Cost
Part B Premium	$134/month	$135.50/month
Part B Deductible	$183/year	$185/year

If you are enrolled in Medicare and receiving Social Security benefits, your Part B premium will be automatically deducted from your Social Security benefit amount. If you are not receiving Social Security but are enrolled in Medicare, you make your premium payments directly to Medicare.

These are small adjustments but important items to be mindful of heading into the new year. If you're curious about how these will impact your current situation and/or you wish to review your financial plan, please contact us to schedule a time to discuss.

CONGRATULATIONS, SKYLER AND JORDAN!

On December 6, 2018, Skyler and Jordan wed at Big Sky Barn in Montgomery, TX.

Please join us in congratulating these two on a happy marriage and many continued successes for the future.