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Mid-Year Progress Report

By Christopher W. Beale, CFP®

The first six months of 2019 have been a good year. I mean the stock market gains for the first six months of 2019 would be above average performance for any 12 month period. The S&P 500 is up over 17% year-to-date with the first three months being up about 13% and the second three months adding an additional 4%. International investors as measured by the Europe, Asia, Far East (EAFE) index were up almost 2.5% in the second quarter and up over 11% in the first half of 2019.

The bond market continues its long stretch of low yields. The 10 year US Treasury Bond currently yields around 2% annually. If you had left half your money in the treasury bonds and half in the S&P 500 Index, your total return for 2019 would be almost 10%. Again, not a bad annual return jammed into the first six months of the year.

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At What Age Should I Start Taking Social Security?

By Christopher M. Lee, CFP®

Throughout my 26-year career, this question comes up quite a bit and is not always an easy one to answer. After all, you have 8 years to choose from (as early as age 62 and as late as age 70). Let me first say that everyone is unique, and decisions are not always financial-based. Some decisions are based on health, life expectancy, and spousal needs. There are pros and cons to starting Social Security early as well as taking it later. This article will explore taking it early and my next newsletter article will focus on taking it later.

Before we get started, you need to know your Full Retirement Age (FRA). Depending on when you start your benefits, they may be reduced for taking it early or increased if taking it late:

If You Were Born in...	Your Full Retirement Age Is...
1954 or earlier	66 years
1955	66 years, 2 months
1956	66 years, 4 months
1957	66 years, 6 months
1958	66 years, 8 months
1959	66 years, 10 months
1960 or later	67 years

DATA SOURCE: SOCIAL SECURITY ADMINISTRATION

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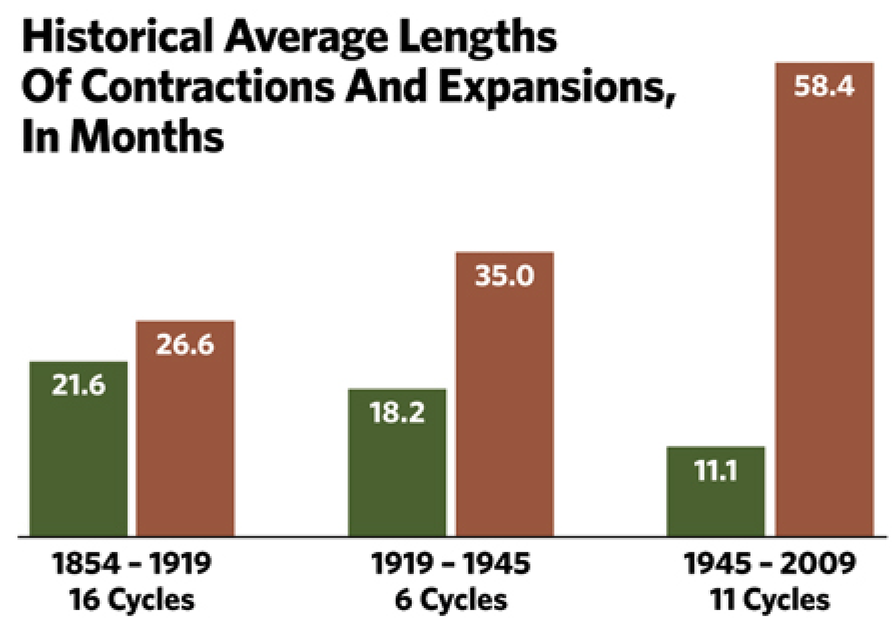
Where do we go from here? The US is growing at a "healthy tortoise pace". We are still growing at about a 2% rate which is less than half the growth rate of historic expansions. This month, the economic expansion officially became the longest expansion on record.



Green = Contractions **Brown = Expansion**

So, do we celebrate by becoming more aggressive and increasing our stock exposure or do we choose a bunker mentality, sell everything and hold only cash? I would suggest neither.

I'll admit that we are in the late stages of this expansion. We are in the late innings of a 9-inning baseball game. But we could have extra innings this time. If you don't like baseball analogies, I'll give you a theater analogy. Most plays have two acts. But we may be watching a play with a possible third act. (A quick shout-out to my cousin who helped me with the theater analogy!) The truth is that economic expansions don't die of old age. They are typically assassinated by the Federal Reserve by raising interest rates to cool down an overheating economy. But I don't see many signs of overheating in our economy. Home building is slower and really hasn't recovered since the great recession that started in 2008. We also have record student loan debt slowing the housing recovery. Car purchasing has been stable. Business investment as a percentage of Gross Domestic Product (GDP) is average.

One area that could cause worry is unemployment. Normally, to have unemployment this low would cause inflation as employers need to pay higher wages to keep and attract good employees. Currently, our full employment economy isn't causing wages to rise…yet. We are still currently at a time where everyone can get a job, but no one can get a raise.
Slow, steady growth and low inflation is an environment where the Federal Reserve will be very reluctant to raise interest rates. Don't get me wrong, the next recession is inevitable. So, where do I see the risks on the horizon?

Let's talk tariffs. Tariffs reduce trade which hurts everyone, but the pain is not felt equally. A reduction in trade hurts businesses and countries that export goods to other countries. The US exports 8% of our GDP. By contrast, Mexico exports 37% of their GDP. Tariffs would hurt the Mexican economy more than 4 times as much as the US economy. Other examples: China and the Eurozone exports 20% of their GDP respectively.

"I am an American; free born and free bred, where I acknowledge no man as my superior, except for his own worth, or as my inferior, except for his own demerit."

-Theodore Roosevelt: American Politician, 26th President of the United States

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At What Age Should I Start Taking Social Security?

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Taking Social Security at age 62

According to a study from the Center for Retirement Resource, this is the most popular age to start Social Security, 42% of men and 48% of women (below). Why do so many people choose this option – is it because it is the best? First, let's talk about the people who should NOT take this option. The people who are still working full time or still not sure if they want to work full time. The reason is that your Social Security income is limited by earned income or what you earn from your job. In 2019 if you made over $17,640 and started Social Security before your full retirement age, you will lose $1 in benefits for every $2 over the limit.

Age When Starting Benefits	% of Men	% of Women
62	42%	48%
63	7%	8%
64	7%	8%
65-66	34%	27%
67-69	7%	6%
70	2%	4%

DATA SOURCE: CENTER FOR RETIREMENT RESEARCH.

For example, let's say Jane is age 62, her Social Security benefit is $600 per month, and she expects to earn $25,000 in 2019, or $7,360 more than the allowed earnings limit. Social Security would hold back $3,680 ($1 for every $2 above the limit) by withholding payments to her through July. For the first 7 months of the year, Jane would get $0 from Social Security. Starting in August, Jane would begin receiving her normal $600-per-month check through the end of the year.

Maybe you are thinking of retiring early now at age 62 (born in 1957) and want to start Social Security, your benefit would be reduced to 72.5% of the income you would have received at your full retirement age, which is 66 and 6 months (from the chart above). This reduced benefit does not go up to 100% when you reach 66 and 6 months, it stays reduced FOREVER! The chart below shows a current 62-year-old and the penalties and benefits of taking now versus waiting:

Age when filing for Social Security	Change in benefits from full amount
62	-27.5%
63	-22.5%
64	-16.7%
65	-10.0%
66	-3.30%
66.5	------
67.5	8%
68	12%
69	20%
70	28%

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"Freedom is not worth having if it does not include the freedom to make mistakes"

-Mahatma Gandhi: Pre-eminent Leader of Indian nationalism during British-ruled India

"This, then, is the state of the union: free and restless, growing and full of hope. So it was in the beginning. So it shall always be, while God is willing, and we are strong enough to keep the faith."

-Lyndon B. Johnson: American Politician, 36th President of the United States

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Higher corporate debt is another risk. Increased borrowing by corporations shouldn't cause a recession but companies with large amounts of debt will be hurt in the next recession.

I need to look further out on the horizon for my next risk which is our budget deficit. The difference between what the US government brings in versus how much it spends annually is now more than $900 billion. This is unprecedented for a non-wartime economy. No one in Washington seems to care: not the democrats nor the republicans. Maybe Senator Rand Paul cares but no one listens to him anyway. Countries and people can live beyond their means for a while but not forever. If we consume more than we produce today, sometime in the future we must produce more than we consume. This is not a great future to leave for our children.

Of course, there are other potential threats including Mideast tensions that could escalate into a war, a hard-landing Brexit, as well as other numerous potential risks.

So, my recommendation is to stay diversified with a proper asset allocation. If you're not in one of our model portfolios, you should call us. Our investment philosophy at New England Capital is goals-based and long-term focused. We rebalance our models which can enhance performance and keep our portfolio risks aligned with your tolerance and your goals. We make adjustments to our models as market conditions and manager changes occur.

Staying calm with a long-term focus can prevent being whipsawed when the market overreacts to every bit of news or tweet from our 24/7 news cycle. The ugly 4th quarter of 2018 will continue to fade in our memories. As a matter of fact, the only investors that will remember how poorly the stock market performed at the end of 2018 are the ones who panicked and sold their investments and didn't experience the positive performance in 2019.

"Everything that is really great and inspiring is created by the individual who can labor in freedom."

-Albert Einstein: German born Physicist and founder of the theory of relativity

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If you started collecting at age 62 versus waiting until your full retirement age of 66.5 you would collect 54 more monthly checks than if you had waited. If your normal benefit was $2,000/monthly but you start early at age 62, you would receive 27.5% less benefit or a monthly check of $1,450 or $550 less per month. With no cost of living adjustments from Social Security, you would have collected $78,300 over that time frame of 4½ years. The breakeven of taking it at age 62 versus waiting until age 66.5 is around age 75. The average life expectancy of a male (age 62 now) is age 83.4 and females is age 86.2. From a financial standpoint, you would have been better off waiting to collect. If you live lot longer than 75 the numbers look a ton better.

What is the best age to start Social Security?

Since no one on this planet knows how long we are going to live, the answer is that there is no one "best age" for everyone and, ultimately, it is your choice. Before you make this important decision, there are several questions that you need to ask yourself:

- Are you still working?
- Do you come from a long-lived family?
- How is your health?
- Will you still have health insurance?
- Are you eligible for benefits on someone else's record?
- Do you have other income to support you if you decide to delay taking your benefits?
- Will other family members qualify for benefits on your record?

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"Consider the rights of others before your own feelings, and the feelings of others before your own rights."

-John Wooden
American Basketball Coach

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Financial planning is an art and a science and we here at New England Capital can help narrow down those choices and review the pros and cons with you. Social Security income is a part of your lifetime retirement income, but only a part of it. There may be times when it may make sense to start taking Social Security early. Maybe you are in very poor health (or terminally ill). Another possibility is that claiming early makes early retirement possible - since you have other retirement savings.

As Dwight D. Eisenhower once said, "The system is not intended as a substitute for private savings, pension plans, and insurance protection. It is, rather, intended as the foundation upon which these other forms of protection can be soundly built. Thus, the individual's own work, his planning and his thrift will bring him a higher standard of living upon his retirement, or his family a higher standard of living in the event of his death, than would otherwise be the case. Hence the system both encourages thrift and self-reliance and helps to prevent destitution in our national life."

We can help you make an objective decision while looking at your whole financial picture and how your decision may affect you, your loved ones, or spouse for years to come. As always, please call our office to make an appointment to review any life changing events in your life, including this one.