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Portfolio Watch

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Fee FO Only®

Tax-Free Buckets o'Money

The Millennial Generation often gets a bad rap, and I'll admit that it sometimes comes from me. It's too easy to have a little fun at the expense of college students who need "safe rooms" with pictures of puppies in case they hear something that upsets them. Or the 30-year-old living in her parents' basement who complains about greedy adults. Or the guy with 5 neck tattoos who can't understand why he doesn't get called for a second interview. We (old guys) tend to take out the paint roller and start painting the entire generation with the same color. It's easy to think that the generation that grew up with everyone getting a Participation Trophy must all be over-entitled snowflakes, forgetting of course who gave them the trophies in the first place. It may be easy, but it's also inaccurate. I've been having lots of conversations with members of this generation that give me hope for the future.

Starting Early and Often

The conversations I've been having with people as young as early 20's have been about the best way to start saving for retirement. These are young people who have started their first career jobs, or in some cases are still in college, and manage to have a few dollars left over at the end of each month. Instead of adding another piercing, they're starting to think about long-term savings. To put this in context, 62% of Americans have less than $1000 in their savings accounts. Someone in their 20's thinking about long-term savings will not be in this group.

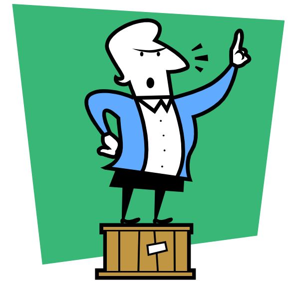
Getting Started and Avoiding Taxes

To restate my disclaimer, every situation is different and this is not advice. I'm simply pointing out one option for someone who wants to get started on investing, and that is a Roth IRA. An IRA can be started as soon as someone has earned income, and

they can add up to $5500/year or 100% of their income (whichever is less). A regular IRA is "tax-deferred," meaning that taxes will need to be paid later. A Roth IRA is tax-free, but there is no tax deduction. No matter how big it grows, there will be no tax on the withdrawals under the current tax laws, and most young people don't really need the deduction anyway. Another reason why a Roth IRA might be a good investment starter is that the contributions can be taken back out without tax or penalty. The only tax and penalty would be if the growth is withdrawn before age 59 ½. When our kids got their first part-time jobs in high school, my wife and I matched their first year of paychecks with contributions to their Roth IRAs. Not only was it an added incentive for them to get a job, but now they have tax-free retirement accounts that can grow for the next 40+ years.

Stocks, Bonds, or Other

When I got my first job out of college the stock market had been on a roll for a while. The prevailing wisdom was to buy a mutual fund, any mutual fund, and you could expect 15%-20% returns per year. The first year I put money into the Fidelity Magellan fund it went up 22%, and I was starting to plan what I would do after I retired at age 40. Young people today do not have the same view about stocks, and the good news is that this frees them from having to always keep up with the stock market. It makes them more rational investors, and more open to things that aim for consistent returns instead of matching the market. The thought of young people making sacrifices now for a tax-free bucket of money 40+ years from now is very encouraging to me.



Market Comments

This newsletter is getting out late, so what happened back in September seems like a long time ago and a little irrelevant. We're now past the presidential debate debacles, and just 3 weeks from the election. Donald Trump is a wildcard as far as the stock market goes, and the odds-makers (whoever they are) seem to have concluded that Hillary has the best chance of winning. If that's what the market expects, then the market shouldn't react much if she does win. It will react a little, simply because professional stock traders always hedge their bets, but I doubt it will be significant. If, on the other hand, the market gets surprised, then it will react. In either case, I don't see a reason for stocks to jump higher due to the election.

The bigger driver of the stock market, as it has been for years now, is the action of central banks. The Federal Reserve would really like to raise interest rates, but it's unlikely they will do it right before an election. However, December is a real possibility. If they do raise interest rates by 0.25%, the market will likely have an out-sized reaction, at least temporarily. The European Central Bank has not said anything about extending their Quantitative Easing program (i.e. printing money), and that has caused some nervousness. The Bank of Japan ran out of bonds to buy (this is how they "print" money), and so is now buying stocks on the open market. The Bank of Japan is now the #1 stockholder for 55 companies on Japan's Nikkei Index. That's disturbing. Could anything go wrong? Any possibility that a central bank buying billions of dollars of stocks could create a bubble? Nah.

Central banks are trying things that have never been attempted before, and we have an election between two candidates who are despised more by the opposing sides than any election in history. It should be an interesting next few months.