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MOLDENHAUER & ASSOCIATES

MARCHNEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

This is an interesting time. With the new administration in Washington there are several changes on the financial/ economic horizon that will affect our lives. We have been promised lower tax brackets, more employment, and less regulation. It is probable that we will see all of that and more. The question really comes down to when and how much. My prediction is that it will take longer and the changes will be more modest than promised. It is still good, just not as good as promised.

The new Fiduciary Rules will affect the financial industry and will both benefit and hurt the consumer. We will see the industry more fee driven vs. commission driven which continues to benefit the consumer. One of the major reasons we affiliated with our present broker/dealer was because, we as a firm, believe in the rationale of the fiduciary rule change and have been planning for it for several years. The new rules will have only a tiny effect on our business where the majority of financial firms are primarily commission driven and they will be affected significantly.

The downside of this major legislation is that the newest and smallest investors will have a more difficult time locating advisors who will be able to service them. At Moldenhauer& Associates, we will have the benefit of a simpler basic planning platform to assist many of these investors.

As I write this month's intro article, I am reflecting on a couple conversations I have had with wise people. Perhaps sharing what they mentioned might create value for a reader.
The first person I will paraphrase is a client who, like me, has dealt with severe illness over the past few years. He suggested that we look on each day with enthusiasm as each day is a gift from "The Lord Above". He mentioned that none of us has a promise of an easy life, but life is what we make of it. Make it count!

I had dinner with the grandmother of my youngest son's fiancée. She is in her 90's and she recommends reading to keep a mind sharp. She said as long as you have a good book to read, you will never be without a friend. Like many of the vital people I have known, I am reminded of that old expression "Use it or lose it". So please "use it".

Before I close let me tell you how fortunate I feel. Family, friends and the firm's clients inspire me to stay sharp, physically and mentally. I feel perpetually blessed to look forward to each day with optimism.

Richard Moldenhauer
Richard Moldenhauer

Addendum:

I wanted to add my thoughts about the complicated fiduciary rules outlined by the new Department of Labor rulings. These rules may be postponed but that is looking more unlikely. The rules disallow the use of commissionable products in qualified retirement plans. This appears to include everything from 401(k) plans to IRA plans. This means that many advisors who use regular mutual funds in retirement accounts will be forced to use fee based accounts. Moldenhauer & Associates believes it is in the client's best interest to use fee based programs in retirement plans.

It appears our winter is to be shorter and milder than usual. Nevertheless, if you are coming to our office and need assistance to and from your vehicle, please call a few minutes ahead and we will have a staff member available to assist you.

I am looking forward to seeing you soon.

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WHAT COULD YOU DO WITH YOUR TAX REFUND?

A calm investor may realize better long-term returns than an overly concerned one.

About 70% of taxpayers receive sizable refunds from the Internal Revenue Service.

Just how sizable? The average refund totals about $2,800.[1]

What do households do with that money?

It varies. Last year, consumer financial services company Bankrate asked Americans about their plans for their federal tax refunds. Thirty-one percent of the respondents to Bankrate's survey said that they would save or invest those dollars, and 28% indicated they would attack their debts with the money. Another 27% said they would buy food with that cash or use it to pay utility bills. Just 6% said they would earmark their refunds for shopping sprees or vacations.[2]

So, according to those survey results, about six in ten people who get a refund will use it to try and improve their personal finances. You could follow their example.

Do you have an adequate emergency fund?

If not, maybe you could strengthen it with your refund. If you have no such fund at all, your refund gives you an opportunity to create one.

You might use your refund to pay off your worst debts.

High-interest debts, in particular – if you pay off a debt that carries 16% interest, getting rid of that liability is, effectively, like getting a 16% return. If you lack an emergency fund, you should create that first, then think about reducing your debt. Paying debt down without an emergency fund or some reservoir of savings just sets you up for quickly accumulating more debt.

If you own a home, you may want to consider making a thirteenth mortgage payment before 2017 ends. Putting your refund to work that way may make more sense financially than putting it in the bank, given the minimal interest rates on so many deposit accounts today.

You could pay insurance premiums with the funds.

An IRS refund of around $3,000 could go a long way. If you have put off buying a term or permanent life policy, your refund might make insuring yourself easier.

Could you invest the money the IRS returns to you?

You could increase (or max out) your annual retirement plan contribution with it or simply direct it into another type of investment account. Whether the savings or investment vehicle is tax-advantaged or not, you have a chance to make that lump sum grow with time.

Aside from investing in equities or debt instruments, you could take your refund and invest in yourself. Maybe you might use it to start a business or support a business you already own. It could also be spent on education. Think of these options as "indirect investments" that might help you or your household grow wealthier one day.

Lastly, remember what a federal or state tax refund represents.

It is a percentage of your earnings that the government holds back, in the event that you owe it in taxes. If you repeatedly get a refund, you might want to carefully adjust your W-4 withholding, so that your paychecks are larger during the year.[3]

Richard Moldenhauer may be reached at 716-662-4361.

Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

1 - azcentral.com/story/money/business/consumers/2017/01/21/tax-season-6-things-to-know/96776554/ [1/21/17]

2 - thestreet.com/story/13523031/2/why-you-should-invest-your-tax-refund-instead-of-spending-it.html [4/8/16]

3 - turbotax.intuit.com/tax-tools/tax-tips/IRS-Tax-Forms/Top-5-Reasons-to-Adjust-Your-W-4-Withholding/INF14437.html [2/9/17]

WORRIED ABOUT WHAT MIGHT HAPPEN TO BONDS?

If you plan to hold yours to maturity, the fluctuation in their market values need not be worrisome.

Are tough times ahead for the bond market?

Some investors think so. U.S. monetary policy is tightening, with the Federal Reserve planning gradual increases for the key interest rate.

A rising interest rate environment presents a challenge to the bond market, but it does not necessarily imply some kind of doomsday for bondholders. Blanket advice to "get out of bonds" is imprudent, because it really all depends on what you intend to do with the debt investments you hold and how long you intend to hold them.

Rising interest rates affect the market values of bonds.

Repeat: the market values. Market values should not be confused with face values.

To illustrate, say you invest $5,000 in a 30-year Treasury with a 1% yield. That means that every year for the next 30 years, that Treasury note will pay out $50 to you.

Then, interest rates on 30-year notes start climbing. Three years later, they reach 2%, and you have a problem if you want to sell your 30-year Treasury. The problem is that no one will buy it for $5,000. Why pay $5,000 for a 30-year Treasury with a 1% yield when you can invest the same $5,000 in a brand new one set up to yield 2%?

Bond yields and bond prices move in opposite directions, and in order for your $5,000 30-year note to yield 2%, its price (read: market value) has to drop to $2,500. The market value of your bond has fallen below its face value, and if you sell it, you will take a loss.[1]

Rising interest rates do not affect the face values of bonds.

So, if you hold onto that 30-year Treasury until its maturity date, you will get your $5,000 principal back at that point, plus $50 per year in interest along the way.

There is a potential downside to holding onto that bond, however, and it may be measured in opportunity cost. Yes, you are avoiding a loss and redeeming your security for its face value. The thing is, you could, potentially, have put your money into another investment with a better yield – a yield that could have kept up with or surpassed the rate of inflation.

This is why some investors favor a laddered bond strategy. They take the interest their bonds pay out and use that money (and other funds) to buy newly issued bonds at higher interest rates, so they can benefit from the upside of a rising interest rate climate. Lower-yielding bonds in their portfolio are gradually replaced by higher-yielding bonds over time. Through this strategy, they can plan to manage interest rate risk and cash flow.

When interest rates fall, the market value of older, higher-yielding bonds rises. Interest rates do not have very far to fall right now, but this is a detail to remember for the future.

A fear of higher interest rates does not necessarily imperil bonds or bond funds.

As a recent example, one bond market benchmark – the Vanguard Long-Term Treasury Fund – rose 13% in the 12 months ending in November 2016.[2]

In the long run, we may see interest rates normalize. Bond investors planning to reinvest their money in newly issued bonds with higher yields can potentially take advantage of such a development.

Regardless of whether interest rates rise, plateau, or fall, remember that their movement does not affect a bond's total return over its term.

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Citations.

1 - thebalance.com/the-difference-between-coupon-and-yield-to-maturity-417080 [6/3/16]

2 - forbes.com/sites/robertberger/2016/11/30/how-rising-interest-rates-affect-bonds/ [11/30/16]

UPCOMING EVENTS:

Our March seminars are at:

Lockport Country Club	Orchard Park Country Club
Tuesday, March 21, 2017 at 6 p.m.	Wednesday, March 22, 2017 at 6 p.m.
717 East Avenue	4777 S. Buffalo Street
Lockport, NY 14094	Orchard Park, NY 14127

We encourage clients who live in the area to introduce potential clients to our firm by bringing a friend to one of our seminars. These are informational and educational events. We are not there to convince people that we are the only firm to consider. Rather, we believe our firm offers a quality opportunity for people looking for a new advisor. Please attend a seminar in your neighborhood with a friend.

Richard Moldenhauer is a representative with Commonwealth Financial Network. Call him at 716-662-4361.

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