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The Advisor

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Resolve to Maintain Your Fiscal Good Health in 2018

It's that time of year again when most of us start thinking about New Year's Resolutions. Year after year, polls show that the most popular resolutions involve losing weight and/or exercising —in other words, improving our health. That's smart, but don't forget that physical and mental health go hand in hand, and stress and worry can undermine anyone's efforts to achieve overall good health through diet and exercise alone.

I believe achieving — or at least working toward — fiscal good health can contribute greatly toward improving one's health in general. That's a pretty logical idea when you consider that studies consistently show the number one cause of stress for most Americans is worrying about money. That worry can increase significantly as retirement approaches — but it doesn't have to.

The Right Mindset

For much of this year, as the financial markets have entered new realms of irrationality, we have focused on the importance of adopting the right mindset for good fiscal health. The right financial tools and strategies are essential, of course; but odds are, you aren't going to end up using them unless you make the necessary shift in the way you think about saving and investing within 10 or 15 years of retirement.

If you've kept up with these newsletters, you already know all this; but just as you must work to maintain good physical health once you achieve it, you must make the same efforts with your fiscal health. It's never a good idea to put any part of your financial plan on autopilot, and that includes the psychology behind it. It can be especially tempting in this

Continued on page 2

Challenges to Your Retirement

We all know saving for retirement is becoming more and more challenging. Longer life expectancies, fewer traditional pensions, and lower investment portfolios are the most obvious challenges. But there are other threats to your retirement:

- **Even if you have a traditional pension plan, those benefits can change.** Your employer can't take away benefits you've already earned, but benefits going forward can be reduced. Keep an eye on your pension plan so you know if your employer makes changes.
- **Switching jobs can affect your retirement benefits.** If you have a traditional pension plan, don't change jobs without considering your pension benefits. The same applies to 401(k) plans with matching employer contributions. You may find staying at your job a while longer will significantly increase your benefits.
- **Don't forget about pension benefits at previous employers.** Many employees leave a company without realizing they are

Continued on page 3

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Maintain Good Health

Continued from page 1

day and age with so much hype around the overinflated stock market to fall back into outmoded ways of thinking and start thinking of "growth" as the be-all and end-all of financial success.

Not only is that potentially dangerous, it's just plain wrong. This was pointed out in a recent newsletter in which we explained that when most people say they want "growth," what they really mean is they want a good, competitive return. Total return, remember, is the sum of both growth (in the form of capital appreciation) and income (in the form of interest and dividends). In our experience, staying focused on the latter more so than the former near and during retirement is the key to reducing risk, thus reducing stress and maintaining good fiscal health.

Remember, too, that this can be done without necessarily sacrificing return, as income-based investors have proven since the turn of the century. As pointed out recently, although the stock market has soared by over 60 percent since 2000 (and over 20 percent since just last October), the actual average annualized return for buy-and-hold investors has been about 5 percent with dividends factored in. Plus, they had to endure the stress and uncertainty of two major market plunges — from 2000 to 2003 and 2007 to 2009.

By comparison, many income-based investors whose portfolios have been properly managed during this same period have achieved close to 5 percent income annually and greater than a 5 percent average annualized return! More importantly, they've done it with far less risk of a major loss during those two huge market drops and without the continued risk of a third major stock market drop. To put all this in a simple formula that summarizes my point: comparable return plus less risk equals less stress and improved fiscal good health!

Get Healthy, Stay Healthy

So by that logic, the first financial resolution on your list should be to make that shift if you haven't yet done so. You should reexamine your way of thinking to ensure you still have the right mindset for saving and investing after age 50 — a mindset in which protection and income are your top priorities. Some additional resolutions that might accompany and help you achieve the first one include the following:

Revisit Your Goals – We recommended doing this as part of your year-end financial planning checklist the last newsletter; but if you don't get to it before the end of the year, make it a top priority after January 1. Again, goals can change, and sometimes they must be adjusted in response to new developments and circumstances in our lives. At the same time, your financial strategy may periodically need to be adjusted to make sure it is still aligned with your goals — and not potentially jeopardizing them.

Reexamine Your Risk – This is another one recommended for your year-end checklist, but there is never a bad time to schedule a meeting with your advisor to better ensure that no new potential "weak spots" have developed in your financial plan. Again, long-term fiscal good health is, just like physical health, a matter of maintenance. That includes working with your advisor to maintain the appropriate strategies in accordance with the appropriate mindset.

Help Someone Else "Get Healthy" – Study after study has shown that doing good for others is also good for you! So, when taking steps to improve your own fiscal health, include regular efforts to also improve the fiscal health of people you know and care about. That effort could mean making a commitment to invite someone to an educational workshop. It could mean striking up a conversation with one person each month about growth versus return and opening their eyes to the fact that increasing one's retirement income actually involves reducing financial risk, not increasing it. Or, you could simply recommend a book geared toward educating investors near retirement about how to achieve fiscal good health by reducing risk and focusing on income. There are several such books on the market now, and we would be happy to recommend or even provide you with one. It would make a great Christmas gift!

Happy New Year!

Challenges

Continued from page 1

entitled to pension benefits. Before changing jobs, check with your employer to find out what benefits you are entitled to. Then keep track of the company so you can claim benefits when you retire.

- **Early retirement can significantly reduce your retirement benefits.** Sure, it sounds great to retire before age 65 with company pension benefits. But don't just look at how much you'll receive when you retire early. Also consider what you would receive if you wait until normal retirement age. Retiring early can dramatically lower your monthly pension benefits for several reasons — you won't have as many years of service, salary increases you would have earned aren't considered, and those extra years of benefits cause a large actuarial deduction in benefit calculations.
- **You may not be able to count on health insurance benefits after retirement.** Due to rapidly increasing costs for health insurance, many companies are either phasing out health insurance benefits for retirees or increasing retirees' share of the cost. While Medicare is still available once you turn age 65, those benefits don't cover all medical costs. Whether or not you can count on health insurance benefits is often a significant factor in deciding whether you can retire before age 65.
- **Social Security benefits are changing.** Normal retirement age is gradually increasing from age 65 to age 67, a change affecting anyone born in 1938 or later. You can still receive reduced benefits at age 62, but the permanent reduction in benefits is increasing from 20% to 30% depending on your year of birth. These changes are meant to encourage you to retire at a later date.
- **Decide carefully before taking a lump-sum distribution.** Some traditional pension plans allow lump-sum distributions instead of monthly pension benefits. Use that option with care. While the amount of money might seem large, are you sure you can invest it and earn more than the monthly pension option?

There are many challenges to saving for retirement. If you'd like to discuss your retirement plans in more detail, please call.

Don't Touch Your 401(k) Plan

If you leave your employer, be careful about what you do with your 401(k) funds. Your worst option is to take a distribution, pay taxes and a penalty on it, and then spend the money on something other than retirement. By doing so, you use retirement funds and forego any further tax-deferred growth on those assets. In addition, you may incur a large tax bill, since withdrawals are subject to ordinary income taxes and a 10% federal income tax penalty if you are under age 59½ (55 if you are retiring).

Don't think it's just a small amount and won't make much difference for your retirement. Over the long term, even a modest sum can grow to a significant amount.

You have three options to keep your 401(k) funds in a tax-deferred vehicle until retirement:

- **Leave the funds in your former employer's 401(k) plan.** Generally, you can leave the funds in your former employer's plan if your balance is at least $5,000. However, most plans will not allow you to borrow from your account once you leave the company. Until you consider all your options, you might want to at least temporarily leave the funds with your former employer's plan.
- **Transfer your funds to your new employer's plan.** Find out if your new employer's plan accepts rollovers. If so, you can typically make the rollover even before you are eligible to make contributions. However, first check out the investment options to make sure the new plan has options that will fit your investment goals. Once the funds are in your new employer's plan, you'll be able to take loans, if permitted by the plan. Also, if you work past the age of 70½, you won't be required to take distributions from the 401(k) plan until you retire. With traditional individual retirement accounts (IRAs), you must take withdrawals once you turn age 70½, even if you are still working. If you decide to transfer the funds to your new employer's plan, get the appropriate paperwork from your new employer so the funds can be transferred directly to the new plan's trustee. Otherwise, if the funds go directly to you, your former employer will be required to withhold 20% for taxes. You must then replace the 20% with your own funds within 60 days, or the 20% withholding will be considered a distribution subject to income taxes and the 10% federal income-tax penalty.
- **Roll the funds over to a traditional IRA.** Again, you should have your former employer transfer the funds directly to the IRA trustee to avoid the 20% withholding described above. Once the funds are rolled over to an IRA, you can invest in a wide variety of investment alternatives. With a 401(k) plan, you typically have a limited number of options. If you plan on leaving part of your 401(k) balance to your heirs, an IRA usually has more flexible options than a 401(k) plan. After the funds are transferred to a traditional IRA, you can then convert the balance to a Roth IRA.

Business Data

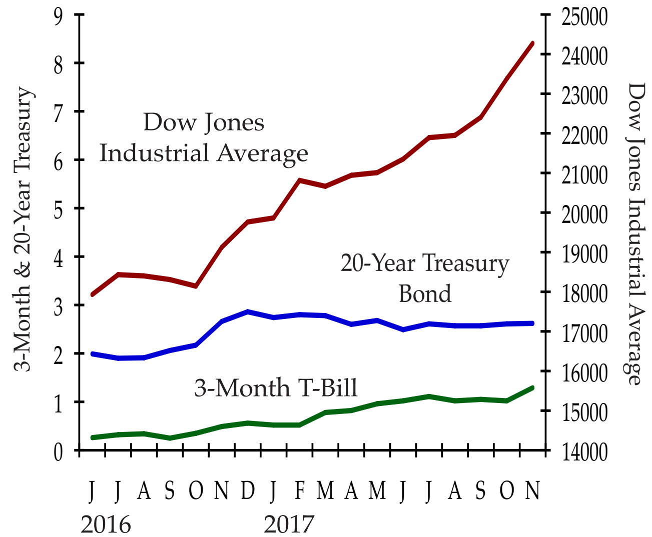
Indicator	Month-end Sep-17	Oct-17	Nov-17	Dec-16	Nov-16
Prime rate	4.25	4.25	4.25	3.75	3.50
3-month T-bill yield	1.05	1.02	1.29	0.56	0.49
10-year T-note yield	2.26	2.33	2.37	2.55	2.26
20-year T-bond yield	2.57	2.61	2.62	2.86	2.66
Dow Jones Corp.	2.97	3.08	3.11	3.17	3.16
GDP (adj. annual rate)#	+1.20	+3.10	+3.00	+2.10	+3.50

Indicator	Month-end Sep-17	Oct-17	Nov-17	% Change YTD	12-Mon.
Dow Jones Industrials	22405.09	23377.24	24272.35	22.8%	26.9%
Standard & Poor's 500	2519.36	2575.26	2647.58	18.3%	20.4%
Nasdaq Composite	6495.96	6727.67	6873.97	27.7%	29.1%
Gold	1283.10	1270.15	1280.20	10.4%	8.7%
Unemployment rate@	4.40	4.20	4.10	-10.9%	-16.3%
Consumer price index@	245.50	246.80	246.70	2.2%	2.1%
Index of leading ind.@	128.80	128.90	130.40	5.2%	4.7%

— 1st, 2nd, 3rd quarter @ — Aug, Sep, Oct Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

June 2016 to November 2017



Keeping Track of Retirement Funds

Most of us change jobs at least twice before retiring, leaving a trail of retirement nest eggs behind us. Now that defined-contribution plans are much more prevalent than defined-benefit plans, we have more responsibility for financing our retirement. So it's important to manage our retirement accounts actively. But how can you do that if your accounts aren't even located in one place? Here are a couple of tips:

Organize your records. As long as you continue to hold your account in a former employer's plan, you should receive statements. Keep them all in a file — or even better, enter them all in a spreadsheet, tracking the combined balances and amounts in each type of investment. At a minimum, managing your retirement accounts means knowing how you're diversified and the weighting of the different types of investments.

Consolidate your accounts. It's much easier to manage your assets if they're all in one place. Fill out the necessary paperwork for rolling them over into one account. That single consolidation account could be the plan you're currently contributing to if it permits rollover contributions. You can also open a rollover individual retirement account (IRA) and have the funds from your other accounts directly transferred there. Be careful about asking for a check. Withholding taxes may be taken out, and you may have to pay a penalty if you don't deposit the check into a qualified account within 60 days.

If You've Lost Track of Accounts

If you've lost track of one or more of your accounts with a former employer, contact your old employer and ask them to confirm that you participated in the plan and the steps you need to take to get a current statement of your account. Or find an old statement and look for a contact phone number or address. As long as there are assets in the account, the financial institution can probably still account for them.

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