Tarheel Advisors Newsletter

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<Insert Outlandish Headline Here>

"If you don't read the newspaper, you're uninformed. If you read the newspaper, you're mis-informed." This is a quote from Mark Twain, and it is just as apropos today as it was over a century ago. There is a deluge of information in the world today, and it really would be difficult to completely ignore it without living under a rock. Sadly, if you try to keep up with current events you may end up wishing you had stayed under that rock.

Most likely you have heard the term "fake news." Regardless of your news source, you're almost certain to have heard your media of choice call one (or all) of its competitors fake. So, it is a perfectly valid question to ask: Is there a single dependable source of news in the United States today? Due to the ever changing business model of media over the past decade, I believe the answer is no.

With the slow demise of print media over the 21st century, much of the media's business model has changed over to the "click bait" scheme. Even reputable news sources frequently post fairly outlandish headlines or editorials in order to bring in traffic to their website. The local news has abided by the rule of "if it bleeds it leads" for decades, and now that philosophy has bled over to the rest of the media.

Why the heck am I talking about political science in a financial newsletter? The reason for that is because the click bait business model has now found itself heavily embedded into financial news.

For the past ten years I can't remember a week that has gone by without seeing at least one article predicting a 50-80% crash in the stock market. Just over the past week I can recall headlines stating we are in a tech bubble bigger than the dotcom boom and another referencing the "Hindenburg Omen," which is a little known technical analysis theory predicting imminent market collapse.

Next crash will be 'worse than the Great Depression': experts

By John Aidan Byrme September 22, 2018 | 8:29pm | Updated

The National Debt Clock in New York City.

Many times when you read one of these articles it will make mention that the "expert" also successfully predicted the last two bear markets. However, what the article will omit is that the expert actually predicted twenty four of the last two bear markets. Essentially, a broken clock is still right twice a day.

Staying abreast of financial news in order to manage money is hard, and this type of news coverage makes a hard task even more difficult. After all, the biggest single key to successful investing is staying in for the long haul. That becomes a daunting task when investors are bombarded on a daily basis with "experts" predicting imminent doom and suggesting investors buy gold bars.

I suspect financial headlines will continue to be sensationalized for the worst. In the end, a story predicting the next Great Depression will always get far more eye balls than an article reviewing same store sales from McDonalds. So, because of this it is important to know the facts. If you look at return data from the S&P 500, the markets are overwhelming positive the majority of the time over the past 90 years. Over this period, in any given year, returns were positive 73% of the time. On a 3-year rolling basis, returns were positive 83% of the time, and on a 5-year rolling basis, returns were positive 87% of the time.

I must point out that painful market corrections can and will happen. Large bear market corrections occur about every 5 years on average. This realization is why long term investing can be so difficult. However, unless an investor has a compelling reason to not be invested, it would be wise to stay in the markets; otherwise, you are fighting odds that are against you. Most importantly, if you choose to fight against these odds make sure you have a strategy to eventually reinvest in case you are wrong and your bear market thesis turns into fake news.

-Ryan Glover, CFP®

2018 Market Update

S&P 500	**+10.5%**
DOW	**+8.7%**
RUSS 2000	**+10.5%**
MSCI World	**-1.6%**
BONDS	**-1.7%**
GOLD	**-7.8%**

Mortgage Rates

15-Year	**4.25%**
30-Year	**4.5%**
5/1 ARM	**4.125%**

Did You Know?

* October has a reputation for monumental market crashes in 1928 and 2008, but over the last 20 years, the month has been the best of the twelve with an average return of 2.1%

* The congressional mid-term elections are on November 6th. For those worried about the implications on either side, there is no documented connection between political outcome and market performance.

The Big 7-0!

Table III (Uniform Lifetime)

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	82	17.1	94	9.1	106	4.2
71	26.5	83	16.3	95	8.6	107	3.9
72	25.6	84	15.5	96	8.1	108	3.7
73	24.7	85	14.8	97	7.6	109	3.4
74	23.8	86	14.1	98	7.1	110	3.1
75	22.9	87	13.4	99	6.7	111	2.9
76	22.0	88	12.7	100	6.3	112	2.6
77	21.2	89	12.0	101	5.9	113	2.4
78	20.3	90	11.4	102	5.5	114	2.1
79	19.5	91	10.8	103	5.2	115 and over	1.9
80	18.7	92	10.2	104	4.9		
81	17.9	93	9.6	105	4.5		

There are a lot of important age milestones in the realm of financial planning. First, there's 50, when you can start making an additional catch-up contribution to your retirement accounts ($1,000 more to IRA's and $6,000 to 401Ks). Then you hit 59 ½, when you can take distributions from your retirement accounts without the 10% IRS penalty. After that, many people look forward to the health insurance stability of getting on Medicare at 65. Shortly thereafter at an age of 66-67 (depending on your birthdate), you become eligible for full social security benefits. Last but not least is the often confusing but very important milestone of age 70 ,(or 70 ½) to be more precise.

If you haven't had the pleasure of reaching that milestone yet, you will find out that it marks the culmination of all your hard work saving for retirement throughout your life. At that point, the IRS will force you to start taking distributions from your tax-deferred retirement accounts so that Uncle Sam doesn't have to wait any longer for those investments to compound without getting his "fair" share. The amount that you are required to take changes every year and is designed to force you to drain down the accounts by the time of your death. And, shame on you if you forget to take your required minimum distribution (RMD) every year. The IRS imposes a severe 50% excise tax on the amount that should have been withdrawn!

In an effort to make sure nobody falls into this trap, let's get down to the nuts and bolts. The first RMD you take must be done in the year you turn 70½. So, if you were born on or before June 30, 1948, then you will turn 70½ by December 30th of this year. If this criteria is met, and you are retired, then you have a choice in the first year only to delay your initial distribution until April 1st of the following year. If you do this, keep in mind you would also have to take a second distribution in that calendar year by December 31st that may push your taxable income higher than you'd like. If you are 70½ or older, but are still working, you may be allowed to delay taking RMDs from a 401k plan as long as you are less than a 5% owner (or relative of the owner) of the company that you work for.

Now that we've established the eligibility criteria, let's look at how to calculate how much you must distribute from your retirement accounts. To do this, we need two pieces of information. First we need the account value of each tax-deferred retirement account (IRA, SEP, SIMPLE, 401k, etc.) as of 12/31 the prior year. Second, we need to consult the IRS table above to figure out the appropriate factor. Note: if you are married and your spouse is more than 10 years younger, then you have a slightly different calculation. For the sake of this example, let's assume you turn 70½ this year and that you have three accounts, a Traditional IRA with $250,000, a SEP IRA with $250,000 and a 401(k) with $500,000. Looking above you'll see that we should use 27.4 as the divisor and thus, the RMD total amount is $36,496.35. You'll notice the factor decreases each year, which proportionally makes the RMD bigger assuming the account values stay somewhat similar. Also of special note in the example above is the IRS requires you to take a proportional RMD from corporate and non-corporate sponsored retirement plans. This means a lump sum from your IRA would not count towards your requirement on the 401k plan. However, retirement accounts that are of the same "kind" can be bundled together. In our example above, the distributions from the Traditional IRA and SEP IRA could either be done pro rata, or as one lump sum from one of these accounts

As you can see, it's pretty important to get this right given that failing to take the RMD above would have resulted in an $18,000+ fine! There are a lot of nuances and exceptions to how RMDs work. Please feel free to reach out to us if you have a specific example you'd like to discuss.

-Walter Hinson CFP®

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