AN Unobstructed View

SPRING 2018

QUARTERLY INVESTMENT INSIGHT FROM HIGHTOWER LAS VEGAS

Suitability Isn't Suitable

March was a disappointing month for many investors. After all, the S&P 500 fell over 2.5%. However, it was probably more disappointing than you might think due to an under the radar event that happened in mid-March. A U.S. Court of Appeals for the Fifth Circuit panel voted against the Department of Labor's Fiduciary Rule, essentially ending a multi-year battle between those following the suitability standard and those wanting what is in the best interest of the client.

Unlike registered investment advisors that follow a fiduciary standard of care, large brokerage firms and bank advisors follow what is called the suitability standard, meaning they are only obligated to place you into suitable investments. The problem with this rule is that it says nothing about whether those investments need to be in your best interest, which has led to a host of conflicts of interest that are now deeply embedded in the traditional brokerage model.

The Department of Labor attempted to fix the issue by creating the Fiduciary Rule, which mandated that any advisor handling a person's retirement funds follow the fiduciary standard. The Rule was met with strong opposition, with millions and millions of lobbying dollars aimed at preventing its implementation. Unfortunately, it seems that investment paid off.

In terms of our legal and moral obligation to our clients, the rule's failure makes no difference to us; the fiduciary standard of care is already a cornerstone of our business and personal values. However, many investors and trillions of dollars are still exposed to the suitability standard, which just seems wrong in today's world. All investors deserve to have their interests placed above those of profits and personal gain.

We've long been believers in holding ourselves to a fiduciary standard; one that puts client interests first. Serving in a fiduciary capacity was the main driver of our move away from the world of large brokerage firms and banks to HighTower and independence. We look forward to many more years in an unconflicted environment where we can focus on our mission of the continual pursuit of managing wealth to a higher standard.

Why Medicare is not SET-IT AND FORGET-IT

Medicare has never been known for its simplicity. For most seniors electing coverage, the process can be daunting. As tough as it may be to figure out the initial selection of plans that fit your needs, the ongoing monitoring of those selections is even more challenging. Medicare is not static and changes to laws and regulations can have a big impact on your total costs.

For example, as of January 1, 2020 Medicare Plan F will be closed to new Medicare beneficiaries. Any beneficiaries still on Plan F may keep it, however costs are expected to rise rapidly. Why? Adverse selection. When you have a group of folks that are getting older and having health issues, with no younger, healthier people to offset them, you have a recipe for adverse selection. Unfortunately, the only remedy is higher premiums, so participants with Plan F should expect to see large rate increases over the next several years.

The good news is that you have a few choices. According to Cindy Samuels, a Las Vegas-based expert in Medicare coverage, "If you currently have Plan F, it makes sense to begin looking at Plan G. The plans are very similar in benefit, but plan G is expected to have much lower cost. Unlike Plan F, participants will be responsible for the Part B annual deductible, which is $183 for 2018. This deductible may increase over time, but it seems highly improbable that the deductible will rise to the $500+ level any time soon. Once the deductible is met, the plan feels just like Plan F: no copays, no coinsurance, you can see the same doctors and providers as you have before. The only real differences you will see are in premium, deductible, and possibly carrier."

You can apply for a Medicare Supplement any time throughout the year, so no need to wait for the Annual Enrollment Period. In order to change plans, you will be asked health questions. As with any insurance application, there is a possibility that you may be turned down or charged a higher premium. Based on your medical history and specific needs, an appropriate solution can be determined.

Reviewing all your Medicare options each year is an important step that is often overlooked. Seniors may be leaving thousands of dollars on the table as a result. Carriers have many plan choices, as well as vastly different premium structures. Due to these disparities, you may be able to get the exact same plan with a different carrier for much less. The same goes for your Prescription Drug Plan. Bottom-line, Medicare is not "set-it and forget-it".

The Traffic Light

How do we manage the funds entrusted to us by our clients? We utilize a top-down approach that starts with our view of where the world is headed. Each quarter, we complete an exhaustive study of many different economic indicators and trends. The Traffic Light is a quarterly summary of these macro-economic issues, and our opinion of them, that form the basis of our research and portfolio management process. While not everything in life can be easily categorized, in this piece we attempt to look for the hopeful (green light) signs in the world economy as well as the more worrisome (red light) issues and everything in between (yellow light).

GREEN	YELLOW	RED
Tax Stimulus	Rising Energy Prices	Geopolitical Tensions
Robust Earnings Growth	Higher Inflation & Interest Rates	Political Dysfunction
Strong Labor Market	Weakening New Orders	Elevated Valuation Levels
Elevated Confidence	Low Savings Rate	Tariffs & Trade Restrictions
Healthy Housing Market		

After a year of almost no volatility, the market has suddenly become moody, which has resulted in significant volatility the past few months. In 2017, the market saw just eight days where the market moved more than plus or minus 1%. Through April of 2018, we've already seen 31 such days, or roughly 40% of trading days. The marked change in trading behavior has a lot to do with inflation, interest rates, and geopolitics.

Inflation readings are on the rise. Oil prices are the main culprit, with prices up about 40% year-over-year. Wages have also added to inflationary pressures. Average hourly earnings are rising at the fastest pace since 2009 with more gains expected. As inflation expectations have increased, so too have interest rates. The ten-year treasury yield has broken above the important psychological level of 3%; a feat it hasn't achieved since 2013. As rates have increased, market participants have become more nervous, which has added to stock market volatility.

Geopolitics has also been a thorn in the market's side in 2018. U.S. trade tensions with China, Canada, and Mexico have raised the blood pressure of traders around the globe. Generally speaking, it's never good when the world's two largest economic players are at each other's throats. Therefore, it's no surprise to see markets a bit uncomfortable during this period of uncertainty.

As we wind our way through this market correction, we continue to believe it makes sense to have a bit lower risk exposure. Volatility is likely here to stay until we get greater clarity on trade and the full effects of the tax plan begin to filter through the economy. Corrective phases are never fun, but they can be a bit less stressful when you have a lower risk exposure.

While the headlines of market angst are hard to ignore, it's important to note that the economy is humming along quite nicely. Corporate profits are surging as a result of the new tax bill, the housing market remains healthy, and consumers are as confident as they've been in nearly two decades. While the savings rate is too low and corporate new orders are slowing, the overall economy looks far from recession.

What are they talking about?

Current Account Deficit

With all the trade tensions percolating in the media, you may have heard the term current account deficit more than once. A country's measurement of trade is captured in what's called the current account. A positive current account means a country is selling more goods and services to other countries than it is buying from them, whereas a negative current account means the opposite.

In 2017, the U.S. current account deficit totaled nearly $500 billion dollars. China accounted for the large majority of the current account deficit ($375 billion). President Trump has railed against the outsized deficit and aims to fix the issue through tariffs and trade restrictions. History has shown these types of policies generally result in pain for domestic consumers, as prices rise and economic activity slows.

In the Media

Mike
Mike on KTNV News
Quoted in Nevada Business

Adam
On MoneyLife

Check out our other publications for insight into our thoughts and process:

ruminATions:
http://www.hightoweradvisors.com/who-we-are/hightower-advisors/las-vegas/blog/

Thinking & Thriving:
http://www.hightoweradvisors.com/who-we-are/hightower-advisors/las-vegas/thinking-and-thriving/

The Stat Pack:
http://www.thestatpack.com

What's New?

Oh how time flies. Rayna Penelova rejoined the HighTower team in late April after three months away for maternity leave. Baby Krum is doing well and her two-year old, Boyan, is enjoying the role of big brother. Interestingly, both of Rayna's children were born during market corrections.

Shelby Sutter completed her first full marathon in April. She continues to ramp up her mileage in an effort to run an ultra-marathon. For those of you that aren't into extreme endurance sports, an ultra-marathon is defined as crazy.

Seth Crawley continues to knock out his licenses. He passed the Series 7 licensing exam in March and has only one more exam remaining.