New England Capital Financial Advisors
Independent Objective Advice

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Adviser

April 2017
Volume 41

"It is not in the stars to hold our destiny but in ourselves."

-William Shakespeare: English Playwright and Poet

Investment Factors: Time, Rate of Return and Money

By Christopher W. Beale, CFP®

I like to talk about money and finance, a subject I know pretty well after 33 years as a financial advisor. Many people don't like to talk about their personal finances. While sex may be the most personal and private topic to discuss, I think the money discussion runs a close second. Certainly there are many people who would much rather talk about their sex life than their financial life.

Some of the uncomfortableness surrounding money comes from a lack of understanding the subject. The blame goes to many factors including the misinformation we get from others including our parents, a lack of financial literacy taught in our schools and the financial industry itself. Yes, the industry likes to make things more complicated and confusing than need be. I'd like to add some clarity here by simplifying the basic factors of any investment.

There are three basic factors of any investment. It doesn't matter if the investment is a stock, bond, mutual fund, exchange traded fund, house or other real estate, or a bank account. The three factors are **time, rate of return, and money**. ALL are important to accomplish your financial goals. None can be omitted but all can change. For example, if you reduce the investment timeframe, you would need more money to invest or you'd need to achieve a higher rate of return.

(Continued on page 2)

Is the Stock Market too high?

By Christopher M. Lee, CFP®

We have been fielding some calls from clients (and prospective clients) about the current market and market highs. So the question is this; with the market so high what should we be doing?

Although the last 16 months have been enjoyable watching this upward trend, should we be skeptical of where we are in the market cycle? Will it continue to go up or will it drop? I will try to answer some of these questions for you the best I can.

Will the market continue to climb? No one can answer this question – not even the psychics or the so called "experts" on CNBC. Yes, we have had an unprecedented run of 7 years without a drop of 20% or more although we did hit that 20% drop if you count intraday versus market close back in February 2016. With that said, it is possible for this market to run more. The economy, at this point, is in good shape and inflation is low, albeit the Fed has recently raised rates in a countermove to help keep inflation down. There are always risks including geo-political, interest rate, earnings, market cycle, and of course the black swan event that no one sees coming. This market reminds me a lot of 1996, when a lot of people felt the market was too high (as it was up 34% in 1995 and 20% in 1996). The S&P 500 returns in the 3 years to follow were 31%, 28%, and 20%.

As most of you know, our philosophy at New England Capital is not to be market timers. If you do that, you need to be right twice; when to get out of the market and when to get back in. If the market drops 10%, do you get back in or wait until it drops 20%. What if the market drops a quick 10% then shoots up 20%. Do you get back in then? There is no substitute for long term investing and staying the course. It is not always the trendy thing to do, but for the clients that have been with us for 20 plus years, you understand that not being "trendy" and staying the course has brought you long term financial success.

(*Continued on page 3*)

> "The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."
>
> -Benjamin Graham: American Investor, economist, and professor

Investment Factors: Time, Rate of Return and Money

(Continued from page 1)

The Cost of Procrastination

•Procrastination can be costly.

•Target amount at age 65[1] **$1,000,000**

Lump-sum investment			
Age 25	**Age 35**	**Age 45**	**Age 55**
$46,031	$99,377	$214,548	$463,193

Monthly investment			
Age 25	**Age 35**	**Age 45**	**Age 55**
$286	$671	$1,698	$5,466

[1] This assumes an 8% rate of return. The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future investment results. Actual investment results may be more or less than those shown. This does not represent any specific product.

Table 1 shows a financial goal of having one million dollars by the age of 65. Keeping our rate of return constant at 8%, the shorter our timeframe, the more money we must commit. While a 25 year old may not have $46,031, or find it difficult to save $286 per month for 40 years; a 55 year old who doesn't have $463,193 may find it impossible to save $5,466 per month during the last 10 years of their working career. The table demonstrates the dramatic impact time has on the achievement of investment goals.

The rate of return on our money can be just as dramatic. Obviously the 8% assumption won't be achieved in a bank savings account but could it be achieved in the stock market? I had the pleasure of having lunch with Roger Ibbotson several years ago. While at Yale University, Professor Ibbotson researched returns on several broad categories of investments going back to 1926. While he sold Ibbotson Associates to Morningstar in December 2005, Morningstar has continued to update his research. As of December 2016, the compounded returns on stocks were 10.1% annually. If I had assumed 10% instead of 8%, that 25 year old would have $1,824,000 at the age of 65.

(Continued on page 3)

Fun Facts: Where the Traffic Goes

The World Wide Web casts a pretty large net: we now have more than 1.1 billion websites featuring 4.48 billion pages—up from one website in 1991.

But when you look at web traffic, most of us actually visit one of the 100 most popular sites. Google controls four of those: Google itself, with 28 billion visits a year, Youtube.com, which brings in 20.5 billion visits a year, plus Blogger and Google User Content. A site with just one million visits per month is ranked somewhat lower: it would be the 33,000th most popular site. It just goes to show there are millions of websites that almost no one (except Google's automated crawler) has ever seen.

Sources:
http://www.worldwidewebsize.com/
http://www.internetlivestats.com/total-number-of-websites/

Investment Factors: Time, Rate of Return and Money

(Continued from page 2)

What if the 25 year old saved $286 a month in the bank at 2% return? At 65, they would have only accumulated $210,000. Put another way, our 25 year old would have $1million by putting away $286 per month in 98 years or at age 123!

I'm not recommending investing in either an all stock portfolio or 100% in a fixed bank savings account. A well-balanced portfolio usually makes sense for most people. But what could be more important than trying to maximize your rate of return every year? What is the number one determinant of funding a successful retirement or a college education??? The answer is funding, of course!

Our 25 year old wants to retire early. They will still need the $1million, but want to stop working three years early, at age 62. They would save $400 per month. If they wanted to retire 8 years early with $1million, they would need to save $572/month. Before you think this is an impossible task, just ponder this real life scenario. Our 25 year old puts away 3% of a $57,200 salary. Not far-fetched for a nurse, a teacher with a masters, or others. Suppose their employer matches 100% of the first 6% contributed to their retirement plan. The total contribution is $286/month. Now at 26 they get a 3% raise and for this year only, they take the entire raise to put into their retirement plan and never increase their contribution again. They are now contributing $572 per month and are on track to retire at age at age 57.

One of the surest ways for investors to fund a financial goal is to contribute an adequate amount to the investment. This is the one factor over which investors have the most control. This would require some discipline and financial maturity. Financial gurus and common sense sages, Robert and Jacquelyn Beale (who happen to be the parents of the author) once defined maturity to me as "being able to delay present gratification for a greater long term benefit". My mom has taken her own advice to heart. While she enjoys a wonderful and active life, she continues to save part of her income monthly for her future! Thanks mom, for giving me practical advice and understanding of the basic factors of investments.

"Waiting helps you as a Investor and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that."

-Charlie Munger
American business magnate, lawyer, and investor

Is the Stock Market too high?

(Continued from page 1)

At this point in the current market, we are seeing a lot of skepticism and people waiting for the drop. In my 23 years of experience in this business, when I see that happening, the market usually does not drop – at least right away anyway. I'm not saying that it won't drop soon, but in my experience that usually does not happen unless there is greed and euphoria which doesn't seem to be present right now, just a lot of skepticism.

I'm a current investor, what do I do? As long as your portfolio is allocated properly, you stay the course. If you pull out now where are you going to go? Money Market rates are still at historic lows and will not keep pace with inflation. At least if you are in a balanced portfolio, you can collect yield (dividends and interest) while you wait for the market.

What if I have more cash to invest, do I do it now? It all depends if you are a long term investor, which if you are reading this article, YOU ARE! We plan for 30+ year retirement for our clients. That is not a short term goal, it is long term. If you were to invest now and look back 30 years from now, this moment in time will be insignificant. Now, I'm not saying that you should put all of your money into the market now (if you are not invested already) as short term market performance is random. You can add a good chunk now, and allocate the rest over a 6-12 month period. That way, if the market continues to go up, you participate. If it goes down, you still have more capital to add at the market drop and take advantage of the drop.

(*Continued on page 4*)

"To refer to a personal taste of mine, I'm going to buy hamburgers the rest of my life. When the hamburgers go down in price, we sing the 'Hallelujah Chorus' in the Buffett household. When hamburgers go up in price, we weep. For most people, it's the same with everything in life they will be buying—except stocks. When stocks go down and you can get more for your money, people don't like them anymore."

-Warren Buffett: American business magnate, investor and philanthropist

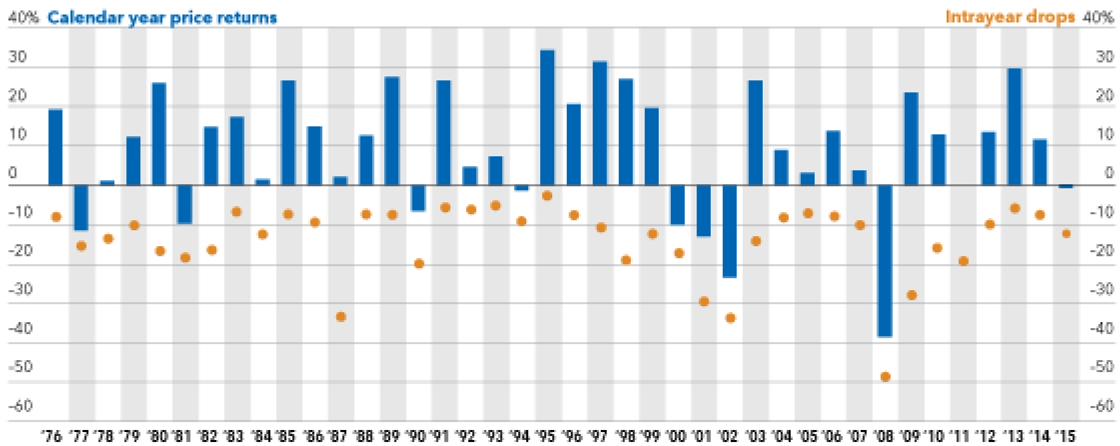
Is the Stock Market too high?

(Continued from page 3)

If you have concerns about the market or how your accounts are positioned (or what your returns have been) please feel free to call our office. That's what we are here for AND we want you to understand what we are doing. Knowledge can help dispel fear. Remember that CNBC needs to pay their bills and make money, so using fear can keep you tuned in longer. My advice to you? Turn that financial pornography off!

For some of you that have been reading our newsletters for a while, you know that I look to use historical data quite a bit. Why? Past performance is not indicative of future results BUT I do believe that history does tend to repeat itself. After all, wouldn't you agree that both Ronald Regan and Donald Trump were both actors?

Market corrections (drops) are a relatively routine occurrence. Despite a market correction of 10% occurring about once a year over the past four decades, the S&P 500 recorded a positive return 75% of the time.



Source: Rimes. S&P 500 annual returns, as represented in the bar chart, do not include dividends. Intrayear drops refer to the largest decline in each calendar year. Total number of positive years and average intrayear drops are for the 40 years ended 12/31/15. Average frequency of declines assumes 50% recovery of lost value. Investors cannot invest directly in an index. Price return for 2011 was 0.0%

While there have been significant setbacks in each of the last 40 calendar years, the S&P 500 recorded a positive return in 30 of those years. What this graph shows is that 3 out every 4 years (on average) the market is positive. No one knows which one will be down. With that being said, keep your eye on your long term goals and shut of the short term noise (aka CNBC) and don't look at your account values, but understand the legacy and income stream that they can provide if positioned properly. In the meantime, sit back enjoy the ride and enjoy what's important – LIFE!

IMPORTANT DISCLOSURE INFORMATION