New England Capital Financial Advisors
Independent Objective Advice

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Adviser

April 2018
Volume 45

Special Interest Articles:

The Next Logical Tariff (A Parody)

By Christopher W. Beale, CFP®

Another day. Another tweet. Another tariff. Another volatile stock market day.

I was planning to write my quarterly blog about issues facing baby boomers as we age, but the topic of tariffs have taken center stage. Then I had an epiphany. These two topics are closely related and need to be combined. Why not place a tariff on all imported old people!

I know what you're thinking. Chris, you're brilliant. The money raised from the tariffs on old people coming into the United States will be used to reduce the strain on the Social Security and Medicare systems caused by the increasing population of people over age 65. And yes, as a bonus my solution also finally addresses two other thorny problems for President Trump—immigration and jobs.

As a student of the financial markets for more than 35 years and an amateur economist I know tariffs are a bad idea. About 90 years ago a senator from Utah named Reed Smoot and a representative from Oregon named Willis Hawley decided to put a tariff on two products that were facing foreign competition: sugar and wood. Well, if Smoot and Hawley thought it was a good idea to protect these two domestically produced products, wouldn't it be logical to protect other domestically produced products? Of course! After hearing many proposals from other senators and representatives the Smoot Hawley tariffs ballooned from two products to more than 800 products!

No matter how beneficial tariffs might seem for the industries they were meant to protect, there are offsetting detrimental consequences called "downstream effects". These downstream, unintended consequences typically cause the cost of other goods and services to rise, reduce competition, and reduce exports of US goods and services as other countries demand corresponding increases in tariffs from products exported by us.

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Is Your House Financially Secure?

By Christopher M. Lee, CFP®

For most clients, one of their largest assets is their house or residence. With that being said, it is good to review your homeowner's policy from time to time. For most of you that have been with us, you have seen our "Success Triangle" and one of the items at the foundation of that Triangle is insurance. This is because if the proper insurance is not in place, it jeopardizes the rest of your financial health. In this article, we will discuss how much coverage you should have, what most polices cover and what they don't.

What is a homeowner's policy?

Homeowner's insurance protects your home, its contents, and, indirectly, your other assets in the event of fires, theft, accidents or other disasters. A standard homeowner's policy (known as an HO-3 policy) will protect you from things like fires and fallen trees. Floods or earthquakes are specifically <u>not covered</u> by a standard policy and require additional coverage.

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Of course this is exactly what is happening today as what started with tariffs on two products, steel and aluminum, was immediately countered by Chinese government tariffs on 120 US (mostly agricultural) products.

Then the Trump administration retaliated the next day with $50 billion in proposed tariffs on more than 1300 categories of Chinese products. China then added US soybeans, autos, and airplanes to their tariff list the following day. This was followed by a $100 billion threat by President Trump which would triple the number of Chinese imports subject to our tariffs.

As in most wars, even the "winners" sustain some casualties and damage. I believe this trade war will be no different. My hope is that this escalation has stopped but only time will tell. Time will ultimately tell which, if any tariffs actually go through at all. I believe we are currently in the "hot air" phase of the discussions. It has been less of a war and more a rhetorical tariff target practice. The initial tariffs on ALL steel and aluminum imports now exempt 50% of steel imported from Brazil, South Korea, Mexico, Canada and other countries. Remember that it will be many months before any of the proposed tariffs could be put into place. This could make panicked sellers look foolish if the "hot air" threats chill during what is likely to be lengthy negotiations.

Still you begin to understand why we're seeing more stock market volatility. The eerie chill that I feel through my body is not from the 4 Nor'easters that came through Connecticut in a span of 20 days, nor from the continued April snow showers we're experiencing. It's the ghost of Reed Smoot and Willis Hawley that's frightening me. I think I hear them saying "Don't forget to tax the sugar and the wood".

Back to my parity of ending the trade war once and for all. I am proposing the **I**mport **P**lan **O**n **O**ld **P**eople tariff, or the IPOOP tariff.

According to gerontologist and author, Ken Dychtwald, "throughout 99% of human history the average life expectancy worldwide was under 18." By contrast in the year 2030 all baby boomers will be over 65 and according to the U.S. Census Bureau by 2035 the projected number of seniors over age 65 (78 million) will exceed the number of children under age 18 (76.4 million). This is the first time in US history this will have occurred. According to the Social Security Administration website there were 159.4 covered workers to one Social Security recipients in 1940. In 2013, the last year shown on their website, that ratio was 2.8 workers to one recipient. The combination of falling birth rates and increasing lifespans will cause huge financial strains because fewer workers will be paying into retirement and healthcare benefits system for more retirees. Our public and private pensions are at risk.

And this issue is not exclusive to the United States. For example according to the Wall Street Journal 43% of the national budget of Brazil is consumed by retirement benefits and another 7% by healthcare benefits. These cost unfortunately crowd out payments for such things like education and infrastructure which receive only 3% each. Brazil's generous government pension system often promises retirees benefits equal to their full salary prior to retirement. Upon death, spouses are typically entitled to their partner's full pension. The incentive for young women to marry older men to continue to receive their pensions is now called "the Viagra effect" in Brazil. Please don't get me started with Japan. They have been suffering from an increasing older population along with a smaller number of younger Japanese workers for years. This has led to a Japanese national debt which is 253% of GDP. Think debt to income. The US is approximately 104% national debt to our GDP. The ratios in both countries continue to rise.

In my opinion some countries would love to export these old people to the US. That's why the IPOOP tariff should be implemented immediately. Of course we will let the young immigrants into our country without tariffs. Why? These young immigrants will be needed to work in jobs which will not only pay into the Social Security and Medicare systems but also provide needed services for us old people. These will be good American jobs that can't be done by anyone overseas.

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"You can't connect the dots looking forward; you can only connect them looking backward. So you have to trust that the dots will somehow connect in your future."

-Steve Jobs: American Entrepreneur, business magnate, inventor, and industrial designer

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No call center employee in India can mow my lawn or shovel snow from my driveway when I can no longer do these jobs. Also when we baby boomers can't perform the ADLs, activities of daily living, we'll need young people to help feed us, bathe us, help us in and out of the tub and the toilet, etc. I for one know I will need help from someone to remind me where I left my glasses and hearing aids.

In summary, the IPOOP tariffs solve the immigration problem, increase American jobs and relieves the financial and social strain associated with our aging population.

I would now like to thank the fantastic team of people I work with at New England Capital. I know they will be working harder this coming year while I am out of the office. First I expect to be in Washington DC to get the IPOOP tariffs through Congress and signed by the President. Obviously a nationwide speaking tour and the obligatory talk show circuit will follow. Finally a trip to Norway will be necessary to pick up my Nobel Prize in Economics.

"Anyone who stops learning is old, whether at age twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep our mind young."

-Henry Ford: Founder of Ford Motor Company

Is Your House Financially Secure?

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Dwelling coverage (known as Coverage A in most homeowner's policies) financially protects your home's structure in the event it is damaged or destroyed by a covered risk like fire, hail, windstorms, theft, vandalism, and much more. This coverage extends to fireplaces, rooms, carpeting, floors, the roof, and everything in between.

You probably think of your dwelling as solely the part of the property in which you dwell. Please note that a standard home insurance policy defines your dwelling as the house itself, plus any structures that are attached. This may include everything from your front and back porches, to your deck and attached garage.

So, in addition to calculating the coverage you'll need for your dwelling, take an inventory of any unattached structures on your property. Even though these aren't included in your dwelling protection, unattached structures such as a guest house, tool shed, swimming pool, or gazebo are protected up to the limits you choose for *Other Structures Protection* on your homeowner's insurance policy.   For example, if a tree topples onto your unattached garage, the *other structures protection* on your policy would help to cover the repair or replacement costs.

How much insurance do I need?

Your home-insurance policy should cover enough to entirely rebuild and furnish your home were it wiped off the map. Ask a home builder to walk through your home and give you an estimate of what it would take to rebuild. That figure should be the basis for how much replacement coverage you'll need. Be sure to point out any unique and/or expensive details that would add to the replacement cost.

Once you've determined the replacement cost of your home, you'll need to know what kind of coverage you want. There are a few key terms here:

- *Guaranteed Replacement Cost Coverage* - This means that the insurer will pay for the rebuilding of your home no matter the cost. (These policies are hard to find these days)
- *Extended Replacement Coverage* - Many insurers offer coverage that caps the payout at around 125% of your home's insured value.
- *Inflation Guarantee* - This feature makes sure that your home's insured value stays current with the marketplace.

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What's covered?

A standard policy will also protect your possessions from said disasters as well as theft. But a standard policy is not a blank check: there's a limit to how much you'll be compensated. If you have specific items of value, such as jewelry or artwork, you can pay a little extra each year to insure them for their full replacement value. All policies limit payouts for certain categories of personal property losses. Some example of typical limits include:

- $1,000 to $1,500 for jewelry, watches, furs, and precious and semiprecious stones.
- $200 for money, bank notes, bullion, gold other than goldware, silver other than silverware, platinum, and coins.
- $1,000 to $1,500 for watercraft, including their trailers, furnishings, equipment, and outboard motors.
- $2,500 for silverware, silver-plated ware, goldware, gold-plated ware, and pewterware.
- $2,500 for property used for business purposes.

Companies sometimes impose similar coverage limits on works of art, antiques, musical instruments, and cameras. To insure items worth more than these special limits, consider buying additional coverage either by paying to increase the category limit or buying a personal-articles floater for them.

Homeowner's insurance policies typically cover your belongings for 50 or 75 percent of the amount for which you insure your dwelling. If your dwelling coverage compensates you for losses up to $400,000, and your personal property coverage is for 50 percent, you will be covered for personal property losses up to $200,000.

Usually, What's Not Covered?

Most homeowner's insurance policies don't cover damage that results from a basic maintenance issue that you're responsible for as the homeowner. For example, if your water heater cracks, your dwelling coverage probably won't help to replace it — but it might, however, help cover any damage to your floors and surrounding areas. Also note that many homeowners' policies don't offer protection for mold or sewage backup.

Personal property is protected against only named perils. Earthquakes, war, floods, and other perils excluded from coverage on your dwelling are also excluded from personal property coverage. Accidental losses are not covered for personal property. For example, if you accidentally spill paint on your brand-new leather sofa, or drop your fancy flat-screen TV while trying to mount it on the wall, the loss is not covered. Nor are you covered if you drop your wedding ring in a lake or a power surge knocks out your computer. You can insure your personal property against accidental losses by buying a special provision to an HO-3 policy or buying an HO-5 policy.

Also keep in mind that there are two different kinds of coverage when it comes to personal articles. There's "actual cash value" and there's "replacement cost." You want coverage for replacement cost. Actual Cash Value Insurance is what you'd get if you sold your valuable today — a lower amount than what you initially paid. Replacement Cost Insurance pays you the amount of money you'd need to buy a brand-new item to replace your old one.

"Where we love is home-home that our feet may leave, but not our hearts."

-Oliver Wendell Holmes, Sr.: American Physician, Poet and Polymath

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We recommend that clients take a thorough home inventory of your personal possessions (like furniture, clothing, electronics, appliances, fancy rugs, and more) so that your personal property coverage on your homeowner's policy can sufficiently cover all of your beloved belongings in case life ever takes a turn for the worse.

Another important note is that you should not use insurance to cover every conceivable expense, just the big ones. If reinstalling a gutter will cost you $200, pay the $200 — don't start filing claims for it. Insurers hate it when you file too many claims, and may raise your monthly premium or even cancel coverage because they'll view you as too risky. A rule of thumb is that if you can fix anything for less than $1,000; don't file a claim with your insurer.

In summary, some action items that you should take from this article to discuss with your insurance agent include:

- Ask a home builder to walk through your home and give you an estimate of what it would take to rebuild. That figure should be the basis for how much replacement coverage you'll need.
- If you have unattached structures on your property, consider getting coverage for them.
- Take a thorough home inventory of your personal possessions.
- Consider buying additional coverage if you have precious or expensive personal property.

In my next article, I will discuss some other important items that were not touched on in this article including Liability Coverage, Additional Coverage for Other Losses, Medical Payments Coverage, and finally Umbrella Policies.

"Grow old along with me. The best is yet to be."

-Robert Browning English poet and playwright