Registered Investment Advisor Firm

©ISSUE XII, VOL. III – *Bud Heng – Registered Adviser (925) 360-6819*

DECEMBER – 2014

It's Over – Now What?

The mid-term elections are behind us, soon the 2016 Presidential election will kick into high gear.

The new Congress must decide on their priorities and hopefully get back to legislating. To begin with, there appears an issue we can all agree on.

A recent study by the National Academy of Social Insurance (read it here) found strong support among Americans of all stages of their lives for financially strengthening the system and improving benefits. In fact a majority said they would be willing to pay higher taxes to make it happen.

The survey covered over 2,000 Americans of ages 21 and over, and included both major political parties. Almost 70% of Republicans and 84% of Democrats agreed "it is critical to preserve Social Security benefits for future generations even if it means increasing the Social Security taxes paid by working Americans."

Interestingly, when the same question was asked of top wage earners, 71% of Republicans and 92% of Democrats agreed that they could pay more into the system.

Currently, Social Security taxes are paid by workers and their employers on earnings, but only up to a cap ($117,700 in 2014 and $118,500 for 2015).

Searching for alternative solutions produced the greatest opposition, including the potential for reducing future benefits. In addition 75% of the respondents opposed increasing the retirement age to 70 and 76% opposed reducing the cost-of-living adjustment (COLA) that current retirees receive.

The survey used "trade-off analysis" which is a technique widely used in market research to determine which product features most consumers want and are willing to pay for.

The result was 70% of the survey participants preferred a package that would eliminate Social Security's long-term financing gap without cutting benefits.

The findings are not policy, nor currently proposed policy, but will undoubtedly get the attention of law makers in Washington.

Some of the findings included gradually, over 10 years, eliminating the cap on earnings taxed for Social Security.

Over 20 years, gradually raise the Social Security tax rate that workers and employers each pay from 6.2% of earnings to 7.2%.

Increase Social Security's COLA adjustment to reflect the inflation experienced by seniors. I believe this proposal requires further definition in order to frame what components are actually to be considered on behalf of "seniors."

Raise Social Security's minimum benefit so that a worker who pays into Social Security for 30 years or more can retire at 62 or later and have benefits above the federal poverty line. Here to, I believe this proposal will need to be reframed to re-educate the public that Social Security was never meant to be more than a supplement to retirement income and not the sole source of retirement funding.

It's Over - Part II

Something's been bothering me lately and it's the big "I" word "INFLATION." It doesn't make a great deal of sense, or more accurately, I can't find a valid reason why there appears to be almost no economic inflation in the market right now.

There are many reason why it should be there, especially with the improvement in the economy. Every previous period of economic expansion has led to inflation because as the economy grows, prices naturally tend to follow that growth upwards.

Currently GDP (gross domestic product) is widely thought to continue at about 3.3% through the second half of this year and settle at about 4.4% in 2015. This should be causing prices to rise.

Add to the GDP growth the fact that the Federal Reserve (Fed) has increased its balance sheet from $500 billion in 2008 to over $4 trillion through purchasing securities on the open market which is the same as printing money.

There are many reasons the Fed would want to see prices rise. Market inflation would cause housing prices to increase thereby creating increased equity for millions of home owners. The increased equity generally leads to increased consumption by consumers.

The other marginal benefit is that inflation causes the $17 trillion dollar national debt (about $153,000 per taxpayer) to dissipate, because if inflation can materialize, the national debt can be paid down with inflated dollars.

Basically there is going to be three ways for us to reduce our national debt. First, taxes will have to be raised. Second, the government must stop or greatly reduce their current level of spending. Third, the debt must be left to the constant erosive effect of inflation.

My guess is we are not likely to see a rise in taxes, or any meaningful reduction in deficit spending, so that leaves inflation as potentially the most likely source for reducing the national debt.

Answer Forum

This month the question of "risk" surfaced again.

The context of the "risk" was structured to include the constant chatter of the election and what the results might portend, the Ebola outbreaks, and radical fundamentalism starting to manifest in isolated incidents in the United States.

All of these items mentioned are significant, but their significance means something entirely different to each individual. Everyone operates based on their own map of the world around them, and must therefore use and interpret these events according to their unique internal representations.

If it feels you are constantly bombarded with shocking, sensational, disturbing and frightening news and events – you are, it's by design and it's 100% marketing.

If you are a long-term investor and you have a plan, it's JUST NOISE! Turn it off, tune it out.

This is one of the reasons the investing public seeks out professional financial guidance and assistance. It reduces and frequently eliminates your emotion from making investment decisions, especially the emotions triggered through 30 second sound bites.

When you hear these "news" events, try to retain perspective and weigh events in the context of your long-term goals and objectives. Do they, will they, can they have a lasting effect on your quality of life?

If you can't answer that question with an immediate, resounding and articulated YES – then you need to step back, take a breath and examine your emotions, goals and objectives.

What you perceived as the end of the world, might just be a rewarding opportunity for positive action, since others may have allowed their fears and emotions to dictate detrimental decisions lacking a proper perspective.

Your ability to communicate with yourself effectively becomes empowering and resourceful. You will discover a more meaningful life through greater flexibility, achieve prosperity, abundance and fulfillment.

Allow me to share a brief excerpt from my soon to be published: **Think & Grow Wealthy – *Your Amazing Passage to Prosperity & Abundance***

"People's lives can always be improved and with improvement comes the ecology of your wealth.

Change your perspective and you change your emotions.

Think about it. If you're depressed, all your solutions come from a state of depression. If you're afraid of taking risk, you will likely never take the action associated with quality risk in order to improve your circumstance.

A very important factor to creating the wealth you seek is a recognition and acceptance that no other human being can create an emotion in another.

You are completely responsible for your own emotions and with training you can learn to accept, reject or reframe those emotions in such a way that empowers you to action."

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me directly at (925) 360-6819 or through my email address at: Bud@DavisInvestmentGroup.biz