VINTAGE FINANCIAL SERVICES, LLC

On the MONEY

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From the Grapevine...

In early January Vintage will celebrate its 30th anniversary! We've come a long way since our first office in Farmington, a room that had literally once been a wine vat (thus the origin of our name).

To mark the milestone we're having another party. Please save the date of Thursday, February 26 to join us in the Club level at Michigan Stadium. We'll have locker room tours, great food and drink, and the company of a lot of the wonderful clients we've been lucky to work with over the years.

This fall some of our advisors hit the road for some more education. Frank and Jack headed to Charlotte for the NAPFA Fall Conference which featured mainly financial planning topics. Joe and Frank travelled to St. Petersburg for the annual Raymond James conference which leaned more toward investments. Frank was one of the speakers at the Raymond James conference where he discussed our firm's excellent growth.

IT'S NOT THAT BAD

Frank was recently at a conference and one of the speakers, who is often on CNBC, noted that the media doesn't want to report good news. He pointed out that last May marked the most Americans working in history, higher than before the Great Recession. He expected CNBC to report on the news, but when he talked to them about it, they said that good news like that doesn't sell TV ads.

At another conference Frank attended, a speaker noted the strength of the job market. He said that over the past six months more private sector jobs had been added than in any six month period in 17 years. While wage gains have been modest so far, typically only 15% of wage gains are realized in the first half of a business cycle recovery. With unemployment fast approaching the Fed's "full employment" target of 5.4%, wage gains are likely to pick up going into 2015.

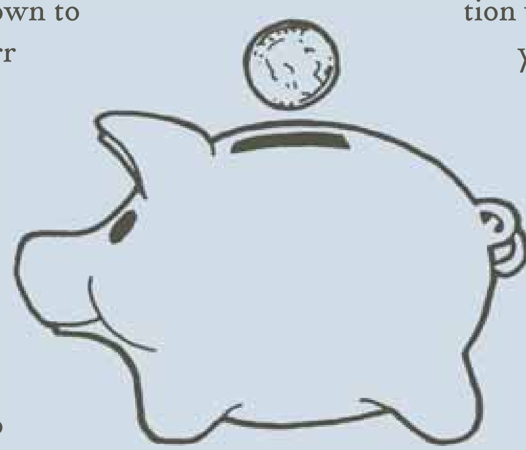
At both conferences there were speakers that were excited about the huge growth in energy production in the US in recent years and the outlook for the next several years. The US is on track to become energy independent and even an exporter. This big change has all kinds of positive ramifications for our economy and we're already seeing oil prices falling, just one of the major benefits.

So don't believe all the negative news you see on TV or in the media. They tend to overlook an awful lot of positive trends and events that happen every day.

YOUR RETIREMENT PORTFOLIO: PIGGY BANK OR INCOME MACHINE?

When you were a kid you probably had a piggy bank in which you could deposit your allowance, gifts and earnings. You could save up for something you wanted and then empty it out when you had enough to buy it. Some people think about their retirement savings in much the same way.

Unfortunately, retirement is a lot more expensive than a new bike and you'll never know quite how much it will cost. Between inflation, your lifespan and unforeseen expenses it comes down to an educated guess. You'll want to err on the conservative side, but when you add it all up, for many successful people, the cost will be in the millions. For instance, a thirty year retirement income of $75,000 per year would come to $2.25 million. That's before you factor in inflation. If inflation averages 3% then the figure jumps to over $3.5 million!



The good news is that you won't need the entire amount on the day that you retire. And since you'll just be drawing a small amount each month, the balance can continue to be invested. If your portfolio can earn the rate of inflation after taxes then your $75k annual retirement income would cost the $2.25 million figure above. That assumes that you die after thirty years with nothing left in your piggy bank.

Another approach is to look at your retirement portfolio as an income producing machine. If you had enough invested to generate $75,000 per year in dividends and interest, then you could live beyond thirty years and not have to worry about running out of money.

Today's interest rates, though, are pretty low. Bank CD's yield next to nothing while the ten year US Treasury bond yields about 2.3% and the average stock dividend of the Dow Jones Industrials is just 2.2% (as of mid-Nov.). Stock dividends have risen much faster than inflation in the past so if you have enough in stocks you may be able to offset the rising cost of living. In order to generate $75,000 in dividends and bond interest with today's low rates you'd need a portfolio of over $3.3 million.

The reality is that your retirement portfolio is likely to be part piggy bank and part income machine. While there are a lot of unknowns at retirement one thing we can be pretty sure of is that you won't live forever. That means you don't have to rely only on the portfolio income and you can draw a bit of principal each year. Unfortunately, inflation will reduce the purchasing power of your principal each year, so unless you are reinvesting a portion equal to the inflation rate then you are effectively drawing principal even if the dollar value increases. That's ok but you can't draw it down very much if you want it to last decades.

The key then is to earn a rate of return comfortably above the rate of inflation. Today's bond yields will only exceed inflation if it stays below its longer term average. That leaves stocks and maybe real estate to generate returns high enough to fund your retirement income. Neither one will beat inflation every year, but retirement is a long term item so you can focus on the long term average results.

Since 1970 large cap stock funds have averaged about 3% more per year than bond funds according to Morningstar. When you consider a retirement portfolio of $2 million, an extra 3% comes to $60,000 per year. Diversification is always important but avoiding stocks in retirement can be costly and could result in an empty piggy bank before your retirement years are over.

HIGHER MINIMUM FOR NEW CLIENTS

One of the benefits of our growth in recent years is that we've been able to add specialists and broaden our services. Since we don't charge extra for most of these, the costs need to come from our investment management fee which includes much more than just investment management. This, along with our long term focus on quality over quantity, has led us to raise our minimum portfolio balance for new clients.

Effective January 1, 2015 we'll raise our minimum portfolio balance from $250,000 to $500,000. As before, this balance can consist of multiple accounts including your 401(k) balances held at your current employer, children's college funds and other accounts.

Our existing clients are not subject to the new minimum and won't see a change in their fee.

2015 RETIREMENT LIMITS

The IRS recently announced the retirement plan contribution limits for 2015.

401(k), 403(b), 457	$18,000
Age 50+ Catch up	$6,000
Roth & Traditional IRA	$5,500
Age 50+ Catch up	$1,000

The Social Security Administration has announced that the annual COLA increase for 2015 will be 1.7%. The average monthly benefit of today's retirees is now $1,294. For over half of all elderly retired couples and nearly three quarters of single retirees, Social Security provides over half of their retirement income. The maximum monthly benefit at full retirement age will be $2,663 for 2015.

SMART CHARITABLE GIVING

The holidays are upon us and that's the time of year many people make the bulk of their charitable contributions. While giving can make you feel good you can feel even better if you maximize your gift by taking advantage of tax breaks and giving to organizations that will spend your funds wisely.

Congress changed the tax laws in 2013 to bring back a limitation on itemized deductions for high income earners known as the Pease limitation. Some people think this means that their charitable contribution deductions will be reduced but if you work through the numbers nearly all high income earners can still deduct the full amount of their charitable contributions.

One way to reduce the after tax cost of your donation is to gift shares of appreciated securities such as stock or stock mutual fund shares rather than cash. You can avoid paying the capital gains tax and still take a deduction for the full value of the shares. Note that tax laws are complex so confirm this with your tax advisor first. At Vintage we're happy to assist our clients in donating securities, but please limit this to donations of at least $1,000 as there is minimal tax benefit for smaller donations.

You may also want to ensure that your charities of choice are spending your funds on their mission rather than administration and fundraising costs. You can research them at www.charitynavigator.org, a website devoted to providing financial information on thousands of charitable organizations. The site rates larger charities (on a four star scale) and provides income statements, accountability and transparency metrics, management salaries, and the percentage of funds spent on programs vs. administration and fundraising. You can even access the non-profit's annual Form 990 tax return information. So this season give generously, but wisely, too.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning,
and tax preparation.
Minimum portfolio $250,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail:

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Or visit our website at www.VintageFS.com

- Retirement Planning
- Education Funding
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Plan to succeed.

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