# Condor Capital Reviews 4th Quarter 2016

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In the fourth quarter of 2016, domestic stocks posted a strong gain to cap off a solid year.

Emerging market stocks gave back ground to their developed counterparts due to rising U.S. interest rates and fears over protectionist policies.

In the U.S., the Federal Reserve decided to raise interest rates in December and took on a more hawkish outlook for 2017.

**December 2016**



To the surprise of many, stocks in the fourth quarter of 2016 rallied and bonds fell after the election of Donald Trump as the next president of the United States. With all bodies of the Federal government now under Republican control, hopes for economic growth and business-friendly legislation motivated investors and businesses around the country, with sectors such as financial services surging on optimism of deregulation and a rising interest rate outlook. Small-cap stocks fared best in the fourth quarter, though mid- and large-cap investments posted solid gains as well, helping the S&P 500 Index finish the year up 11.95%. In terms of style, value-oriented securities outpaced their growth-leaning counterparts in 2016.

International developed markets underperformed their domestic counterparts in the quarter and over the year. The main catalyst was sluggish economic growth, while a stronger U.S. dollar also proved to be a headwind. Emerging market economies, especially Mexico and China, felt rising protectionist sentiments particularly harshly and lagged their developed market counterparts in the fourth quarter. This marked a sharp reversal from earlier in the year, when emerging markets led on the back of low interest rates and rising commodity prices.

The Federal Reserve surprised very few when it raised rates by 0.25% in its December meeting. Because the Fed's move was so expected, investors turned their focus to the central bank's outlook for 2017, which showed a hawkish tone for the number of rate increases. Treasury yields continued to surge higher, with the 10-year yield ending the year at 2.45%. Although this level marks a significant increase for the quarter, the yield represents more of a rebound from a steep drop earlier in the year and is only slightly above where it began the year.

Fixed income markets had a difficult fourth quarter, with rising interest rates pushing bond prices lower across the board. Municipal bonds were the hardest hit, as expectations of future tax cuts further weighed on these securities. Lower tax rates would make the tax-advantaged status of munis less desirable, driving down demand and, in turn, price. Investment grade corporate bonds, especially those with longer maturities, did not fare much better. Relative outperformers in the fixed income space included corporate bonds with shorter durations and higher yielding debt instruments, which are better able to absorb increasing interest rates because of their higher yield spreads.

Outlook – The main storyline of 2017 is likely to be how President Trump's agenda translates into policy. Changes in the tax code, which may be slow in materializing, could have a big impact on companies' bottom lines through lower tax rates, while so-called border taxes could affect international trade significantly. Americans will also be keeping a close eye on the Affordable Care Act to see whether the new administration will push for repealing and replacing the healthcare law.

With respect to the job market, employment is another key area that we continue to have a bright outlook for. Data pertaining to the domestic jobs market has been improving over recent years, with the unemployment rate slowly falling. Recently, we have seen statistics pointing to wage growth picking up, meaning that there is more money in workers' pockets. While we can't expect every dollar earned to be spent, a growing economy has certainly led to an increase in consumer confidence.

Another positive trend that we will be watching closely is earnings growth. Many market observers expect earnings, which have stagnated for years, to rebound in 2017 due to the recent end of the energy sector's malaise on the heels of stronger oil prices and the possibility of ongoing strength in financial services companies' earnings thanks to a favorable interest rate environment and possibility of lower regulation.

The surprise election of Donald Trump and even more surprising market reaction provided an important reminder that there is no crystal ball to investing. "Experts" had made their way to news outlets in the days leading up to the election, warning of an immediate decline in the stock market should Trump win, though the opposite has happened so far. While we are optimistic about the markets' prospects in 2017, we continue to advise against any attempts to time the market or drastically shift allocations on a speculative bet and, as always, continue to believe that a long-term perspective and balanced portfolio are the keys to a sound investing strategy.

- ***Dementia is the most costly disease in the United States and is increasing at a rapid rate.***
- ***Make sure you plan accordingly for your retirement.***

# Don't Forget to Include Memory Loss When Planning for Retirement

When planning for retirement, an important factor that is often overlooked is the potential for declining cognitive skills associated with aging. Cognitive impairment (CI), often attributable to dementia or Alzheimer's disease, can have profound implications for your overall health and well-being, particularly during retirement. The cost of care can absorb income and significantly deplete retirement savings. It can also deprive you of the ability to effectively manage your financial affairs.

## Cognitive impairment: a growing concern

The possibility of suffering from some form of cognitive impairment later in life is real. Dementia affects approximately 2.4 to 5.5 million Americans. Its prevalence increases with age: 5% in persons ages 71 to 79, 24% in those ages 80 to 89, and 37% in those 90 and older. One in eight adults age 60 and older (12.7%) experiences confusion or memory loss that is happening more often or getting worse. Unfortunately, among these individuals, only 19.3% discuss these changes with a health-care provider. Additionally, 34.5% of those affected by CI live alone.

## Financial impact of the cost of care

Dementia, including Alzheimer's, is the most costly disease in the United States and is set to increase like no other. In 2016, Alzheimer's and other forms of dementia will cost the United States an estimated $236 billion. By 2050, this number is expected to grow to more than $1.2 trillion. Among all nursing home residents, more than 64% have been diagnosed with Alzheimer's or another dementia. Alzheimer's is the sixth highest cause of death in the United States.

Unfortunately, those suffering from advanced stages of cognitive impairment often require long-term care. The cost of care can quickly deplete your retirement savings and affect the quality of life for you and your family, leaving little or no income or savings. Average costs of long-term care include the following:

- $6,235 per month, or $74,820 per year, for a semi-private room in a nursing home
- $6,965 per month, or $83,580 per year, for a private room in a nursing home
- $3,293 per month for a one-bedroom unit in an assisted living facility
- $21 per hour for a home health aide
- $19 per hour for homemaker services
- $67 per day, or roughly $2,010 per month, for services in an adult day health-care center

The cost of long-term care depends on the type and duration of care you need, the health-care provider you use, and where you live. While one-third of 65-year-olds may never need long-term care, 20% will need it for more than five years.

## Loss of ability to manage finances

Your financial plan should consider not only the potential cost of care if you or your spouse suffer from cognitive impairment, but also determine who will make financial decisions about your care.

Even if you suffer from mild cognitive impairment (MCI), you may find it more difficult to manage investments or a household budget. If you are the primary money manager and experience declining cognitive skills, your spouse could be left financially vulnerable.

## Make it part of your plan

A comprehensive financial and legal plan is important. It is helpful to prepare as early as possible. Some families use the services of an elder law attorney.

There may come a time when you can no longer make decisions for yourself, including financial and health-care decisions. This can create a hardship for a caregiver trying to conduct financial transactions and make medical decisions. Several types of legal documents can be written before they are needed to help you and family members through this difficult time. These documents include, but are not limited to, an advance medical directive, a medical power of attorney or health-care proxy, and a durable power of attorney, which allows a representative or agent to make financial decisions and transactions on your behalf, should you become unable to do so.

There are generally three ways to pay for long-term care expenses: use your own income and savings, share the cost of care through some form of private insurance, and/or seek the assistance of state or federal government programs, such as Medicare and Medicaid. The choices you make will likely depend on several factors, including your financial and family situation, your age, and your state of residence. In any case, it's wise to consider the ramifications of cognitive impairment when planning for retirement.

*One thing baby boomers and millennials can agree on is a concern about their financial situations. Find out what in particular each generation is focused on so that their financial outlook is bright.*

# Top Financial Concerns of Baby Boomers, Generation Xers, and Millennials

Many differences exist among baby boomers, Generation Xers, and millennials. But one thing that brings all three generations together is a concern about their financial situations.

According to an April 2016 employee financial wellness survey, 38% of boomers, 46% of Gen Xers, and 51% of millennials said that financial matters are the top cause of stress in their lives. In fact, baby boomers (50%), Gen Xers (56%), and millennials (60%) share the same top financial concern about not having enough emergency savings for unexpected expenses. Following are additional financial concerns for each group and some tips on how to address them.

## Baby Boomers

Baby boomers cite retirement as a top concern, with 45% of the group saying they worry about not being able to retire when they want to. Although 79% of the baby boomers said they are currently saving for retirement, 52% of the same group believe they will have to delay retirement. Health issues (30%) and health-care costs (38%) are some of the biggest retirement concerns cited by baby boomers. As a result, many baby boomers (23%) are delaying retirement in order to retain their current health-care benefits.

Other reasons reported by baby boomers for delaying retirement include not having enough money saved to retire (48%), not wanting to retire (27%), and having too much debt (23%).

## Generation X

While baby boomers are concerned about retiring when they want to, Gen Xers are more specifically worried about running out of money in retirement, with 50% of the surveyed group citing this as a top concern. More Gen Xers (26%) than baby boomers (25%) or millennials (21%) have already withdrawn money held in their retirement plans to pay for expenses other than retirement.

Besides worrying about retirement, 25% of Gen Xers are concerned about meeting monthly expenses. Forty-four percent find it difficult to meet household expenses on time each month, and 53% consistently carry balances on their credit cards.

Being laid off from work is another financial worry among Gen Xers, cited by 22% of those surveyed--more than cited by baby boomers or millennials. Gen Xers (26%) report that better job security would help them achieve future financial goals, which may help explain their worry about both future (retirement) and current (living) expenses.

## Millennials

Unlike baby boomers and Gen Xers who worry about future financial needs, millennials seem to be more concerned about meeting current expenses. This concern has grown substantially for millennials, from 23% in the same survey conducted in 2015 to 35% in 2016. Millennials are also finding it increasingly difficult to pay their household expenses on time each month, with the number jumping from 35% in 2015 to 46% in 2016.

Considering the amount of debt that millennials owe, it's probably not surprising that they worry about making ends meet. Specifically, 42% of the millennials surveyed have a student loan(s), with 79% saying their student loans have a moderate or significant impact on their ability to meet other financial goals.

In an attempt to make ends meet, 30% of millennials say they use credit cards to pay for monthly necessities because they can't afford them otherwise. But 40% of those who consistently carry balances find it difficult to make their minimum credit-card payments on time each month.

## How each generation can address their concerns

Focusing on some basics may help baby boomers, Gen Xers, and millennials address their financial concerns. Creating and sticking to a budget can make it easier to understand exactly how much money is needed for fixed/discretionary expenses as well as help keep track of debt. A budget may also be a useful tool for learning how to prioritize and save for financial goals, including adding to an emergency savings account and retirement.

At any age, trying to meet the competing demands of both short- and long-term financial goals can be frustrating. Fortunately, there is still time for all three generations to develop healthy money management habits and improve their finances.

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## I Get So Many Credit Card Reward Offers. How Do I Know Which One to Choose?

Credit card reward programs are more popular than ever. In order to keep up with such high demand in a competitive market, credit card companies are coming up with new and more enticing offers every day. How do you know which one to choose?

Are you the type of credit card user who likes to travel and/or frequent a particular hotel or airline? If so, then a travel rewards credit card might be the right option for you. Typically, a travel rewards card allows you to earn points (sometimes referred to as miles, depending on the card) for every purchase you make on the card. Typically, cards offer a reward that is equal to 1% of your purchase, which means that for every $100 you spend, you will earn 1 point or mile. Some credit card companies offer even greater incentives, such as double points for specific types of purchases or bonus points when you open up an account. Before signing up, however, be sure to read the fine print. Many travel rewards cards have specific rules that apply to point redemption and may charge a hefty annual fee.

Don't want the hassle that sometimes goes along with redeeming points on a travel rewards card? Consider a cash back rewards card. While not as thrilling as racking up points to take a trip to some far-off, exotic destination, cash back rewards cards may be better for individuals who aren't frequent travelers and who tend to use credit cards for everyday purchases. Most cash back rewards cards offer a flat cash reward on general purchases. Others offer higher rewards for different spending categories (e.g., dining or entertainment purchases). Consider your credit card spending habits to determine which cash back rewards card would be appropriate for you.

Finally, it's important to remember that rewards cards work best when you pay off your account balance each month. Be sure to charge only what you can afford to pay off and avoid spending over your budget just to earn more rewards. Otherwise, the unpaid balance you carry forward will create finance charges that may cancel out the value of any rewards you accumulate.

## What Do You Need to Know About Chip-Card Technology?

When you're checking out items at the store, should you insert your card into the payment terminal? These days, as the use of chip-card technology grows, the answer to that question is less clear. The computer chip now embedded in debit and credit cards uses EMV (Europay, MasterCard, and Visa) technology, which is meant to reduce fraud at physical retail stores (as opposed to online shops). But because businesses aren't required to upgrade their terminals, it's confusing to figure out what to do at the register. Here are answers to some questions you might have about chip cards.

**How does it work?** Magnetic strip cards contain information within the strip, so it's easy for a thief to "capture" that information and use it to accrue charges without the cardholder's knowledge. By contrast, the chip card generates a unique, specific code for each transaction that cannot be reused.

**Why does it take longer to check out?** The unique code generated by the chip for each transaction is sent to the bank by the payment terminal. The bank matches the code to an identical one-time code and sends it back as verification for the transaction. As a result, it takes a few seconds longer to check out using a chip card because it takes time for the information to be transmitted.

**Why aren't some terminals working yet?** You might notice that terminals in some stores are equipped with a chip-card reader, but you're told you can't use it. These terminals are awaiting chip-card certification, which can take several months to process. Until their terminals are certified, retailers are responsible for any fraudulent charges.

**How much longer will I have to carry a physical card?** The answer to this question isn't clear. However, it's important to note that terminals with upgraded chip-card technology are also equipped with technology that can accept wireless near-field communication. This allows data to be exchanged between two different devices (e.g., a cell phone and a terminal) that are a short distance away. This means that one day, instead of swiping or inserting a card at the checkout, you might just be tapping the terminal to make payments.