Demming Financial Services Corp.

David W. Demming CFP®
David W. Demming Jr. CFP®
Karen Bordonaro CFP®
Patrick Justice CFP®
Kevin Coholan CFP®

July 2019 - September 2019

3rd Quarter

Coming Soon…Breaking Ground! Stay Tuned…

Heads Up…

As a result of recent regulation changes, certain account paperwork will need to be updated in the coming months. Thanks in advance for your cooperation!

Please be sure to send us a copy of your 2018 tax returns to info@demmingfinancial.com as they're completed!

Please note, the main inbox for prompt email correspondence is info@demmingfinancial.com!

As a friendly reminder, for your protection, it is our ongoing policy that any requests for funds sent to us via email will also be confirmed by phone.

Please be sure to let us know if there are any changes to your contact information (address, phone number, email, etc.)

Also, please be sure to check out our website at www.demmingfinancial.com!

Withholding Changes

The new tax law made it hard to know how much to withhold from your paycheck every few weeks. As a result, many people withheld less than they might otherwise have, and either received a smaller rebate than expected or had to pay additional taxes in April.

Now the tax agency has released a proposed new updated Form W-4, which reflects the changes from the Tax Cuts and Jobs Act—including the doubling of the standard deduction, eliminating personal exemptions and limits on certain itemized deductions. You can find it here: https://www.irs.gov/pub/irs-dft/fw4--dft.pdf, and the plan is for everyone to use some version of this in 2020.

"It's not WHAT you buy. It's WHEN you buy."

The current W-4 asks taxpayers to note the total amount of allowances they're claiming (the more, the less tax withheld), and any additional amount they want taken from each paycheck. The new form will ask you to account for multiple jobs within your household, and to spell out the details of any other income that didn't have taxes withheld, including interest, dividends and retirement income. An additional section asks taxpayers to claim their dependents, and to factor in the $2,000 child tax credit for those under 17, or the $500 credit for other qualifying dependents.

Retirees also need to reevaluate their withholding amounts. They can use **Form W-4V** to withhold a flat rate from their Social Security check or **Form W-4P** to withhold from their pension.

Tax experts say the best way to fill out the new W-4, when it's approved and online, will be to sit down with an expert or tax preparer, with last year's Form 1040 in front of you. That way, you can account for all the income you may receive in the coming year and do a better job of withholding the appropriate amount.
Fixing Social Security—Once and For All

Fixing Social Security—Once and For All

Chances are that you know that the Social Security trust fund is due to run out of money—or "deplete its reserves" as economists put it—by the year *2035*. The actual time frame depends on some forecasts, including economic growth, number of workers who remain in the workforce and the number who retire—but the clear point is that Congress is going to have to take action in the next few years if it wants to prevent a lot of angry seniors from heading vengefully to the polls.

What would happen if no action was taken and the trust fund were depleted? Right now, there is a surplus of funds above what is needed to pay current retirees. Each year, the Social Security system collects FICA taxes from American workers, which comes to about 10.6% of earnings, and pays out somewhat more than that amount to Social Security beneficiaries—in the form of the checks that were promised. It is the difference between the amount collected and the amount being paid out—currently about 3.7 percentage points—that is moving us toward a crisis.

Once the trust fund can no longer make up the difference, Social Security recipients would simply receive, collectively, however much was collected by workers. Based on those same complex economic projections, economists guesstimate that this will be about 25% lower than the Social Security benefits that people had been promised and expecting.

A new paper prepared by the Center for Retirement Research at Boston College offers Congress a few choices when they finally decide to perform surgery on the nation's retirement program. The paper focuses on the difference between what is paid out and what is collected and says that this difference is due to "Social Security's Missing Trust Fund"—a pool of assets that should have been set aside at the outset to generate enough interest to make up the difference. The paper suggests various ways to create a Missing Trust Fund of roughly $2.7 trillion.

One is to raise the payroll tax rate on existing workers. The calculations say that Social Security can be restored to full self-sufficiency in 75 years if the payroll tax were raised on all workers by 6.5 percentage points. If you wanted to take a more gradual approach, the payroll tax could be raised by just 4.5 percentage points over the next 150 years. In both cases, the payroll tax could then be restored to current levels going forward.

The paper also looks at not only raising the payroll tax, but also eliminating the cap on how much of a person's income is subject to FICA taxes. (Currently, only the first $132,900 is subject to the tax). In that case, the payroll taxes would only have to be raised by 5.3 percentage points (for a 75-year solution) or 3.7 percentage points (for a 150-year solution). Again, after that time period, both the tax rate and the inflation-indexed income limit would be restored.

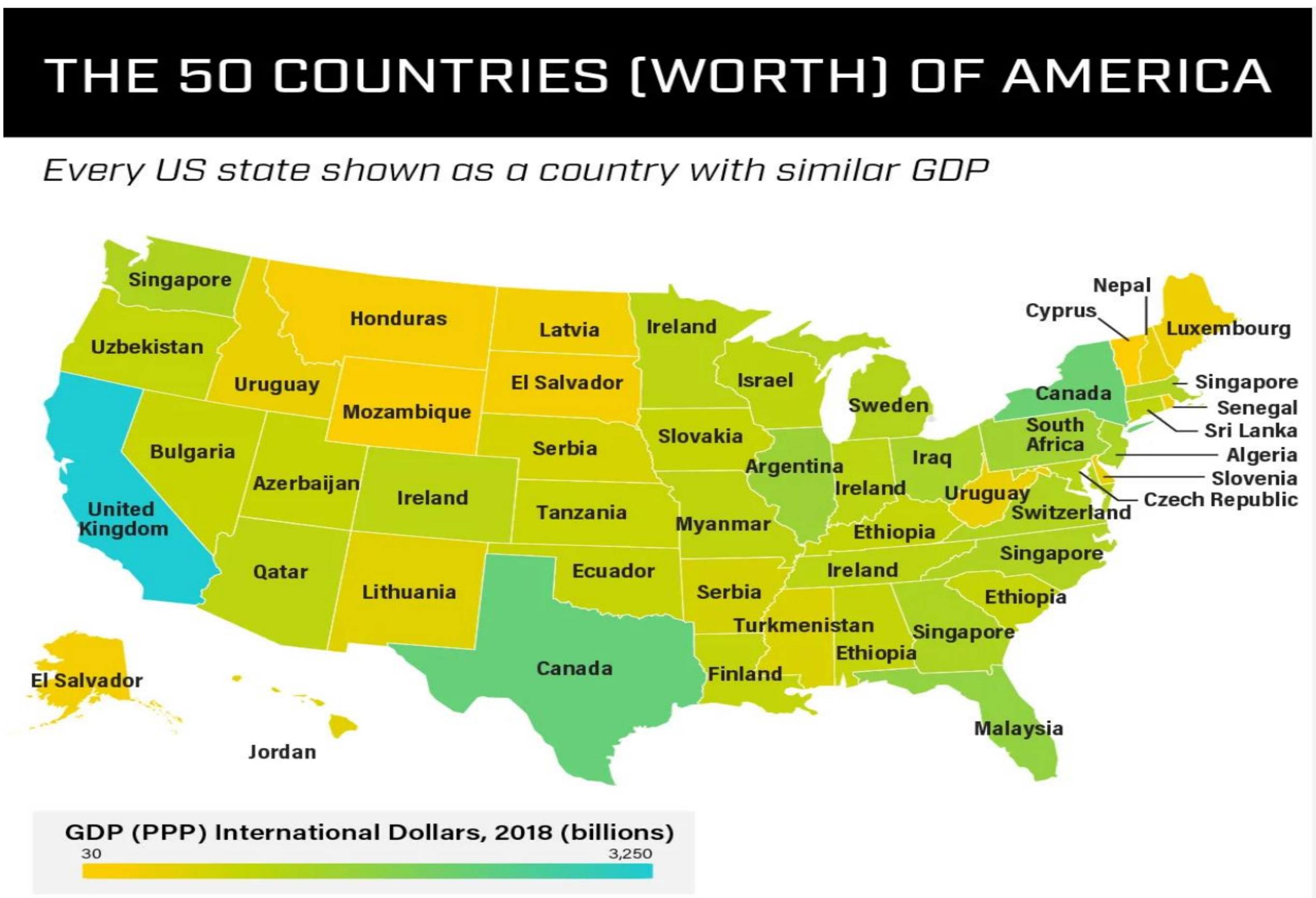
Finally, the paper looked at raising income taxes to help fund Social Security's Missing Trust Fund. According to its calculations, simply raising the payroll tax would force the top quartile of workers to take on 54% of the burden of restoring Social Security back to solvency, compared with 29% for the second quartile, 13% for the third and 4% for the bottom quartile. Raising the payroll tax plus eliminating the cap on income would shift those figures to 65% (top quartile), 22%, 10% and 3%. Raising income taxes plus the payroll tax plus eliminating the income cap would throw 84% of funding the Missing Trust Fund into the collective lap of top quartile earners, with the second, third and bottom quartiles shouldering 12%, 4% and 1% of the burden, respectively.

Which of these will Congress adopt? Will it act at all? The debate is worth watching as the Presidential race heats up—and now you know the most workable proposals that are likely to be discussed.

States the Size of Countries

It can sometimes be hard to understand just how large the U.S. economy is compared with the other countries of the world. You've probably read that California, alone, if it were an independent country, would have the world's fifth largest economy. But what about the rest of the states?

A map created by the Eurasia Group does a great job of putting in perspective the size America's economic output by matching each state's GDP with some countries. For instance, California's economy is roughly the same size as the United Kingdom's. Texas and New York are both roughly (in economic terms) as productive as Canada. Michigan is the economic size of Sweden, Virginia the size of Switzerland, and North Carolina, Georgia and Washington state are the size of the Asian economic powerhouse known as Singapore.



As you look at the map, you realize that it would take many productive countries to equal one America. You can look on that with pride or realize how this confers a lot of responsibility on the world's largest economy.

2019 Second Quarter Investment Market Report

How to make sense out of the recent market behavior? We experienced a painful decline in the last month of 2018 before the markets took a sharp (and unexpected) about-face and delivered the biggest one-quarter gain since the third quarter of 2009. The surprise upward trend has continued through the second quarter, albeit with more modest gains, despite what would normally be considered warning signs in the economy, the global trade markets and corporate earnings.

If we could simply stop the year at this point, the gains would be unusually high for a typical 12-month period; for six months, they are extraordinary. Perhaps we should celebrate cautiously.

Just about every investment asset produced gains in 2019's second quarter. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—rose 3.99% in the most recent three months, and now stands at an 18.66% gain for the year.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 4.19% in the second quarter, closing out the first half of the year with a gain of 18.74%. The widely-quoted S&P 500 index of large company stocks was up 3.79% in the second three months of the year and is up 17.35% in the first half of 2019.

Meanwhile, the Russell Midcap Index has delivered a 21.35% return in the first six months of 2019.

The Russell 2000 Small-Cap Index gained 16.98% the year's first six months. The technology-heavy Nasdaq Composite Index gained 4.40% in the second three months of the year and is up 20.66% at the year's half-way point.

International investors are also sitting on gains. The broad-based EAFE index of companies in developed foreign economies gained 2.50% in the second quarter and is up 11.77% so far this year. In aggregate, European stocks are up 13.20% in 2019, while EAFE's Far East Index has gained 7.80%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, lost 0.31% in dollar terms in the second quarter, but the index still up 9.22% for the year.

Looking over the diversifying investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 1.63% gain during the year's second quarter, for a 17.92% gain for the first six months of the year. The S&P GSCI index, which measures commodities returns, lost 1.42% in the second quarter, but is still up 13.34% for the year. Energy prices are up 22.80% in 2019, while precious metals have gained 8.86% so far this year.

The bond markets continue the long stretch of low-yield environment, coupled with either a flat or inverted yield curve, depending on where you look. Coupon rates on 10-year Treasury bonds have dropped to 2.01%, while 6-month bonds are now yielding a higher 2.09%. Five-year municipal bonds are yielding, on average, 1.34%, down from 1.89% last quarter, while 30-year muni yields have fallen to 2.40% on average.

What's going on? It's tempting to think that the bull market is running out of steam, in part due to the fact that it's not easy to see how valuations can go much higher. The price-to-earnings ratio of the S&P 500 index--a popular way of valuing stocks--is 21.83 on a trailing basis, compared with a 10-year average of 17.87, and a long-term historical mean of 15.75. At the same time, a popular haven for retreat from the markets--gold--is also above its historical value; the precious metal is not far from its highest level in six years, at $1,413 an ounce.

Bonds are not attractive investments at the 2% range for Treasuries, especially when your yield on six-month issues is higher than if you take the risk of investing over ten years.

"PSSST... NO."

Moreover, there is growing uneasiness about a global slowdown in economic activity, and trade wars and the threat of trade wars are not likely to boost the global economy, even if the recently-announced detente between the U.S. and China holds. Sluggish profit and economic growth are not normally a recipe for higher stock prices.

You might imagine that a strong first half of the year would normally be followed by an easing back or even a drop in value over the second half, but that hasn't necessarily been the case historically. In years in which the U.S. market rose in the first half of the year, the odds of a positive second half, based on the historical record, are 72%. That certainly doesn't guarantee anything, but it does suggest that market movements tend to be much harder to predict than one might imagine.

All of us were surprised at the roaring start to 2019 considering the downturns at the end of 2018. We can expect to be surprised again, either on the upside or the downside, in the second half of this year.

Contact Us

Demming Financial Services Corp.

David W. Demming CFP®

David W. Demming Jr. CFP®

Karen Bordonaro CFP®

Patrick Justice CFP®

Kevin Coholan CFP®

13 New Hudson Road
Aurora, OH 44202

Phone: (330)562-2122
Toll Free: (877) 841-2122
Fax: (330) 562-6086
Email: info@demmingfinancial.com
Web: www.demmingfinancial.com

Sources:

https://www.cnbc.com/2019/05/31/the-irs-releases-a-new-withholding-form-heres-what-you-need-to-know.html

https://www.gzeromedia.com/the-graphic-truth-the-50-countries-worth-of-america

https://crr.bc.edu/wp-content/uploads/2019/05/IB_19-9.pdf

Wilshire index data: https://www.wilshire.com/indexcalculator/index.html

Russell index data: http://www.ftse.com/products/indices/russell-us

S&P index data: http://www.standardandpoors.com/indices/sp-500/en/us/?indexId=spusa-500-usduf--p-us-l--

http://quotes.morningstar.com/indexquote/quote.html?t=COMP

http://www.nasdaq.com/markets/indices/nasdaq-total-returns.aspx

International indices: https://www.msci.com/end-of-day-data-search

Commodities index data: http://us.spindices.com/index-family/commodities/sp-gsci

Treasury market rates: http://www.bloomberg.com/markets/rates-bonds/government-bonds/us/

Bond rates: http://www.bloomberg.com/markets/rates-bonds/corporate-bonds/

https://www.marketwatch.com/story/wall-street-bargain-hunters-vexed-by-simple-fact-a-synchronized-rally-means-almost-nothing-is-cheap-2019-06-29?siteid=yhoof2&yptr=yahoo

https://realmoney.thestreet.com/investing/kass-7-surprises-from-the-first-half-of-2019-with-more-uncertainty-to-come-15006134?puc=yahoo&cm_ven=YAHOO&yptr=yahoo

https://www.marketwatch.com/story/chances-are-the-us-stock-market-will-be-higher-by-year-end-but-theres-a-catch-2019-06-25?mod=moremw_bomw

If you have not already done so; please send a copy of your 2018 Tax Returns. Feel free to send them or request your preparer to send them to info@demmingfinancial.com.