Demming Financial Services Corp.

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

October 2018- December 2018

4th Quarter

Heads Up…

Due to regulatory changes, account updates may be required on your T.D. Ameritrade accounts. Thanks in advance for your help and cooperation!

As a friendly reminder, for your protection, it is our ongoing policy that any distribution requests sent 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.)

Check out our website at www.demmingfinancial.com!

Please be sure to use our corporate email, info@demmingfinancial.com, in order to receive the quickest response!!

Withholding Tempest in a Teapot

Chances are, you've read an article recently telling you to be careful about the withholding in your paycheck, to make sure your employer (assuming you have one) is taking out enough money so that you won't have a big tax obligation come April. This is the result of a big government publicity campaign which, on the surface, doesn't make a lot of sense. The new tax act reduced the tax rates for just about everybody—admittedly not by much, but still a change down rather than up—so why would everybody suddenly be withholding too little? The most likely impact is that you'll end up with a modest refund rather than the usual break-even.

If you're receiving Social Security benefits and your adjusted gross income plus nontaxable interest plus half of your Social Security benefits all add up to $34,000 (single filers) or $44,000 (married filing joint filers), then you might have to do some figuring. People in this category have to pay taxes on up to 85% of their Social Security benefits. A number of them file Form W-4V to have a flat rate withheld from every check—and if they keep that amount the same, then they will probably be overpaying a bit, which is not a problem. But if, instead, you're paying taxes quarterly, and you're expecting your tax bill to go down a lot as a result of the new tax law, then maybe you're underpaying and could end up paying penalties.

Of course, people over age 70 1/2 should also be paying quarterly taxes on the money they receive from their required minimum distributions (RMDs) from IRAs or 401(k) plans. But here, there's a late fix: they can notify their custodian to withhold a full year's worth of taxes from the last required distribution. If they do that, then the IRS would treat the payment as if they've been making the payments all year. But you have to be careful. If, instead, they take the distribution, put it in the bank, and then make the tax payment, the IRS could assess penalties for the quarters they missed.

It's always a good idea to pay attention to your taxes. But this latest publicity campaign by the IRS—credulously picked up by most of the financial press—seems a bit like overkill: a warning about something that most people are already handling just fine.

What High-Achieving People Have Learned to Give Up

High-achieving people will tell you that they sacrificed to get where they are, but what, exactly, did they sacrifice? An article in Forbes magazine lists 18 things that high-achieving people routinely give up—and many of them are not what you would expect.

Number one on the list: **A fear of uncertainty**. The article notes that there really are no guarantees in life, so when you start a new business, you aren't really giving up certainty for the reckless unknown. You're giving up one kind of uncertainty for another—and the old one, which feels more certain, may be holding you back.

Two: **Ignoring your feelings.** Your feelings actually give you a lot of clues about your situation. Anger tells you where you feel powerless. Anxiety tells you when something in your life is off-balance. Fear tells you what you care about. If you treat your feelings as messengers, you might learn what you need to do next to move ahead.

Three: **Pretending your problems don't exist.** The advice: make a spreadsheet of your debt and list the habits you now are detrimental to your health. Think of who you owe apologies to and address your problems rather than sticking your head in the sand.

Four: Avoiding discomfort. This is kind of like number one: if you build your life around just the things that make you feel at ease, that is a fast track to complacency.

"SORRY, I CAN'T EXPLAIN WHY, WHEN INTEREST RATES RISE, BOND PRICES FALL."

Five: **Your unhealthy habits.** Identify your worst habits and work on them, so you have a sound basis of health to build your life on.

Six: **A victim mentality.** Whatever your back story, don't let it define your life. Don't let your current circumstances do so either. What will make the difference is what you choose to do in response to them. Everybody struggles, but some are willing to act in spite of it.

Seven: **Excuses.** Justifying failure tends to lead to more of it. In life, you either do or you don't, and the don't option often, when looked at objectively, means wasting time. Your excuses make you feel better about why you aren't doing what you know you need to do.

Eight: **Learned helplessness.** When you face many challenges, it makes you feel powerless in your fight against the world.

Nine: **Defending your problems.** You will often get advice on how to address a problem you've been complaining about. Do you consider it, or respond with an excuse for why it would never work? Defend your potential, not your problems.

Ten: **Distractions.** Everything that isn't helping you move forward is a distraction.

Eleven: **The need to be liked.** Recognize that nobody is universally liked, for reasons that have nothing to do with you. There are a few people who won't like you no matter what, and any energy spent trying to change that is taking away from more productive activities.

Twelve: **Trying to do everything yourself**. Nobody can take on every role, job and responsibility in your life. High-achieving people hire the right people, surround themselves with experts and rely on others. Refusing to rely on others wastes your energy.

Thirteen: **Resistance.** This is the normal response to stepping out of your comfort zone, but if you experience resistance to work, then something needs to be addressed. Too much hesitation may mean you aren't on the right path.

Fourteen: **Quick fixes and shortcuts.** Whatever you are building won't get built overnight, and you shouldn't expect it to. Real change happens gradually. Try to do everything 1% better each day, and over time the effort will compound.

Fifteen: **A fear of failure.** This can hold you back in many ways; it makes you unwilling to take chances, or change your circumstances, or avoid learning opportunities and experiments that might prove useful.

Sixteen: **Waiting until you "feel like it" to get started.** Motivation isn't something you wait for; you know you need to work through late nights and difficult days. High achieving people need strong principles and habits.

Seventeen: **Envying those who have what you want.** Envy will hinder you from getting those things yourself. The more you judge others, the more you put yourself in a box.

Eighteen: **Waiting for your circumstances to change before you do.** If you wait for a new relationship, or a new opportunity, or some change in life, then you might find yourself waiting forever. Life unfolds from the inside out, when we change our circumstances through focused effort.

The New Manufacturing

We hear about how artificial intelligence is going to change the workforce, and how computers are taking over the world. But perhaps the biggest shift in our industrial lives has been flying under the radar: rather than making things, we will soon be "printing" them.

A new "metal printing press" developed by Desktop Metal, uses a variety of metal powders to lay down many thin layers of material in rapid succession, according to the specifications in a digital file, to build three-dimensional objects. It employs more than 32,000 juts in conjunction with powder spreaders to jet millions of droplets per second, creating metal parts in minutes instead of hours. The one-million-dollar printing device is designed to replace metal fabrication activities, many of which are currently handled by hand. Among the early customers: Ford, Caterpillar and Google's advanced technology and project group. BMW has tested a steel prototype of a water impeller pump that costs $80 to make currently. It can be 3D "printed" for just over $5, and the printed version is 50% lighter.

The goal is to have a "factory" of 3D metal printing units that can print parts and products on demand, with no minimum order size. The parts will be lighter, cheaper and more efficient than what could have been fabricated in the past. One analyst is forecasting that sales of industrial 3D printers could reach $18 billion by 2021.

2018 THIRD QUARTER MARKET REPORT

If you believe that the trend is your friend, then perhaps the U.S. stock market is in for an excellent fourth quarter, or maybe not so fast. U.S. equity markets suffered small losses in the first quarter, followed by decent single-digit gains in the second quarter. Now that the third quarter is in the books, a somewhat larger gain has put stocks in solid positive territory for the year though the first week of the 4th quarter may dampen those expectations.

The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—finished the quarter up 7.27% and has gained 10.68% so far this year.

Large cap stocks led the way. The Wilshire U.S. Large Cap index was up 7.68% over the past three months and has gained 10.50% for the first three quarters of the year. The widely-quoted S&P 500 index of large company stocks gained 7.20% in value during the year's third quarter, rallying to an 8.99% gain so far in 2018.

Meanwhile, midcap stocks, as measured by the Russell Midcap Index, are up 7.46% in the first nine months of the year.

The Wilshire U.S. Small-Cap index posted a 3.65% gain over the third quarter of the year, and now stands up 10.99% so far in 2018. The technology-heavy Nasdaq Composite Index finished the quarter with a gain of 7.14% and is now up 16.56% at the three quarters mark of 2018.

International stocks are not faring quite so well. The broad-based MSCI EAFE index of companies in developed foreign economies gained just 0.76% in the recent quarter and is now minus 3.76% for the year. In aggregate, European stocks were up a meager 0.39% over the last three months, posting an overall loss of 4.86% for the year, while MSCI's EAFE's Far East Index gained a slightly more robust 2.23% in the third quarter, losing 1.18% so far in 2018. Emerging market stocks of less developed countries, as represented by the MSCI EAFE EM index, went into negative territory for the quarter, down 2.02%, for a loss of 9.54% for the year.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, gained 0.72% during the year's third quarter, and is just eking out a 2.25% gain for the year. The S&P GSCI index, which measures commodities returns, gained 1.34% in the second quarter, up 11.84% for the year.

In the bond markets, coupon rates on 10-year Treasury bonds have continued an incremental rise to a 3.06% annual coupon rate, negative returns of almost 4.5% on an annualized basis, while the yields on 30-year government bond yields have risen slightly to 3.21%. But short-term yields are catching up; 3-month Treasury bills are now paying investors 2.20%, and one-year Treasuries yield 2.56% on an unusually flat yield curve. Normally, bond investors have to be paid much more to hold longer-term paper, due to the always-present uncertainties in interest rate movements and other factors.

Five-year municipal bonds are yielding, on average, 2.23% a year, while 30-year munis are yielding 3.26% on average.

What's going on? The American economy roared in the second quarter of the year, but most economists believe that the 4.2% GDP growth number was inflated, both by short-term corporate earnings as a result of the tax cuts, and by a short-term effort by multinational companies to complete as much overseas business as possible—including via their manufacturing supply chains—before the widely-publicized tariffs took effect.

That suspicion seems to have been confirmed by a variety of new economic statistics. On the jobs front, initial claims for state unemployment benefits rose by 12,000 to a seasonally-adjusted level of 214,000—above expectations. On the manufacturing front, non-defense capital goods orders excluding aircraft, a proxy for business investment, fell 0.5% in the recent quarter. As a result, Morgan Stanley and Barclay's economists lowered their growth estimates to 2.7% and 2.8% for the third quarter, respectively. This is solid but not spectacular growth, a bit above the 2.2% growth rate the U.S. economy has experienced, on average, since mid-2009. Altogether, we may be looking at a year of sub 3% growth.

But then you have the Federal Reserve Board's recent (and widely anticipated) decision to nudge the Fed Funds rate up to a range of 2-2.25% in September and to raise short-term rates again in December. Higher short-term rates are not necessarily bad for the market, and it is certainly a good sign that Fed economists believe the U.S. market is strong enough not to need additional stimulus. But the Fed seems to be intent on continued raises next year, when the biggest impact of the corporate tax rate reduction will be behind us, and when we enter unknown global trade territory due to the imposition of tariffs on U.S. trade partners.

It's never possible to predict the next downturn, but perhaps we can evaluate the impact the unprecedented 25% tariffs on Chinese goods will have on our collective stock portfolios. Tech companies have massive manufacturing operations in China, and China is also a large purchaser of finished tech products from the U.S. You can expect reduced earnings for many tech companies—including Apple, which has signaled that the tariffs will hurt its bottom line but has so far declined to put a number on the impact. Commodities funds that invest in products that are being hit by retaliatory tariffs—like soybeans—could see a negative impact. And the overall inflation rate will rise by some undetermined amount as many foreign-manufactured products, and things like cars (which have components that are manufactured overseas) become more expensive.

Meanwhile, small cap companies typically buy and sell domestically, so they will be less affected by the new tariff regime—and might even benefit, if foreign competitors are impacted by higher border taxes.

Another interesting question is how investors will be affected by the ballooning U.S. federal deficit. This year, the $21.5 trillion national debt quietly passed the size of the U.S. GDP—or, put another way, it is now greater than the GDP of the next three largest nations combined. (That's China, Japan and Germany.) The Congressional Budget Office estimates that this debt level will more than triple in the next 30 years, and that by 2028, the debt-to-GDP ratio will be the largest it's been since the end of World War II.

So, what? As the U.S. government begins flooding the world with Treasury bonds, they are likely to become cheaper—which means their interest rates will be higher. Higher interest rates are normally associated with lower stock market returns, due to the increased cost of borrowing. Also: consumer debt—credit cards, home mortgages and student loans—becomes more expensive, taking a bite out of disposable income. Disposable income is the fuel that drives GDP growth, in the form of consumer expenditures.

These are all things to ponder, not things that will help you pinpoint the hour and the day when the bull market finally comes to an end. Has a change of season crept into our investable markets under our nose? All we can do for now is wait and act as opportunities arise.

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/2018/09/12/the-irs-is-warning-retirees-of-this-impending-surprise-tax.html? source=sharebar|twitter&par=sharebar

https://www.forbes.com/sites/briannawiest/2018/03/20/18-things-you-need-to-give-up-to-become-a-high-achieving-person/#486237de11fa

https://www.forbes.com/sites/amyfeldman/2018/09/27/the-next-industrial-revolution-how-a-tech-unicorns-3-d-metal-printers-could-remake-manufacturing/?utm

Wilshire index data: http://www.wilshire.com/Indexes/calculator/

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/
http://www.bloomberg.com/markets/rates-bonds/corporate-bonds/
https://finance.yahoo.com/news/stocks-point-higher-slew-data-125604406.html

https://www.winknews.com/2018/09/26/fed-raises-rates-for-3rd-time-this-year-with-1-more-expected/

https://www.forbes.com/sites/adamsarhan/2018/09/26/what-does-the-fed-meeting-mean-for-stocks/#1ccc204d2a8b

https://www.cnbc.com/2018/09/27/heres-how-trumps-trade-tariffs-could-affect-your-investment-portfolio.html? source=yahoo%7Cfinance%7Cheadline%7Cstory%7C&par=yahoo&yptr=yahoo

https://finance.yahoo.com/news/national-debt-affects-153430807.html

2018 Philippines Trip

Photos taken by David W. Demming Sr.

If you have not already done so, please send us a copy of your 2017 tax return. Feel free to submit via email:
info@demmingfinancial.com

Thanks!